January 21, 1954

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JAMES C. HAGERTY
Press Secretary to the President

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CAUTION: HOLD FOR RELEASE UNTIL 7:00 P.M. (EST), SATURDAY, JANUARY 23, 1954

COMMISSION ON FOREIGN ECONOMIC POLICY

REPORT TO THE PRESIDENT

AND THE CONGRESS

Washington, D. C.
January 23, 1954

The Honorable Dwight D. Eisenhower
President of the United States

The Honorable Richard M. Nixon
Vice President of the United States, and
President of the Senate

The Honorable Joseph W. Martin, Jr.
Speaker of the House of Representatives

Sirs:

I have the honor to transmit to you the attached report which embodies the findings of the Commission on Foreign Economic Policy, which was constituted pursuant to Public Law 215, 83rd Congress, 1st Session, approved August 7, 1953, 67 Stat. 472.

The document is a composite of the thinking of the group as a whole. At times each of us might have expressed the ideas with different language or emphasis had he been writing it for himself. Where individual differences reached the point of requiring separate statement those concurrences or dissents have been included.

Participation in the work of this Commission has been a richly rewarding experience for all of the members. We have sensed the grave responsibility of world leadership which presently rests upon the United States, and have had a remarkable opportunity to survey the broad problems and opportunities with which our country is confronted in the field of foreign economic policy.

The time available to us for this study has been extremely short, but we have pressed our work to early termination because of the obvious urgency of the matters involved.

We submit this report without waiting for printing of the documentation prepared by the Commission's extraordinarily able staff. This material will be published as promptly as possible, and will be issued in the form of a supplement.

Very truly yours,
Clarence B. Randall
Chairman

COMMISSION ON FOREIGN ECONOMIC POLICY

CLARENCE B. RANDALL, CHAIRMAN
Chicago, Illinois

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LAMAR FLEMING, Jr. VICE CHAIRMAN
Houston, Texas

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Note: The staff papers prepared by the research staff of the Commission are being published in February, 1954 in a separate volume as a supplement to this Report.

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COMMISSION ON FOREIGN ECONOMIC POLICY

Report to the President and the Congress

INTRODUCTION

As directed by the Act of Congress under which our work has been undertaken, and guided by a sense of heavy responsibility, the members of the Commission on Foreign Economic Policy have endeavored faithfully to re-examine the international relationships of the United States in the economic field, as they bear upon the soundness of our domestic economy and the security of our citizens.

Dominating our thinking throughout, has been the sobering realization that the policies pursued and the actions taken by the United States in respect to foreign economic policy profoundly influence the destinies of all of the peoples of the world. Our nation bears an awesome responsibility of world leadership. Though not of our seeking, it is one that we may be fated to bear for a long time to come. If we bear it with understanding, courage, and honor, we can make incalculable contributions to the cause of peace and the advancement of human welfare.

In our discharge of this responsibility, we shall find at times that our views will differ from those held by other free peoples. On such occasions we must display forbearance, but never falter in the high quality of our leadership.

Nor can we forget that the security and well-being of our own citizens are constantly at stake as we take significant steps in foreign economic policy, though the effects of such decisions may at times seem remote to the individual, or difficult of evaluation.

The responsibility which rests upon the President and the Congress to make wise decisions, and to take them promptly, is grave indeed.

How then shall our Government determine what is wise in the field of foreign economic policy?

Ours is clearly one of the most dynamic, the most resilient, the most creative economies in the world. Never has it seemed more powerful than it is today. What, therefore, could be wiser than to determine what are the sources of that strength, and then to build upon these as we play our part in the international economy?

The strength of our domestic economy requires adherence to three fundamental principles:

1. The freest possible opportunity for the development of individual talents and initiative in the utilization of private resources and through the free association of workers.

2. The maintenance of vigorous, but fair, competition.

3. The maintenance of a broad free market for goods and services.

Our primary reliance should therefore be upon the incentives of the free enterprise system, the stimulating effects of competition, and the stabilizing influence of free markets.

In moving toward a fresh release of these expansive forces, here and abroad, we must not expect to repeal history. The present fabric of our laws, the obligations which we have assumed under the necessities of national defense, the customs and traditions of our people, the basic protective standards of our laws that safeguard wages, commerce, industry, and agriculture, must all be respected. Where changes are required they must be embarked upon gradually, with every precaution possible taken to avoid dislocations in our present systems of production, and distress to individual citizens.

Changes when made must take us toward recognizable goals. We must know what we are seeking to achieve and advance steadily and intelligently toward those known objectives. We must avoid the instability of the improvised.

Boldness will be required. We have outgrown some former practices.

The larger interests of all our people must at all times be our standard of conduct.

Responsible behavior on our part, moreover, requires that we recognize our own limitations and restrict our commitments to our capabilities. Our first obligation to the world, as well as to ourselves, is to keep the United States strong. Only from that firm base shall we be able intelligently and worthily to measure up to our great responsibility in world leadership.

That from our own resources we have already poured out vast sums to help reconstruct a war-torn world, and to further our own security, is common knowledge. But the extent to which there still exists a serious distortion in our economic relationships with the rest of the world is not so clearly understood.

Basic, therefore, to any survey of our foreign economic problems is an analysis of the so-called dollar gap.

THE POSTWAR DOLLAR PROBLEM

During the period 1946 through 1953, the United States transferred to the rest of the world through gifts and loans $33 billion of goods and services, exclusive of military items. This total was equal to more than one-fourth of all American exports. The fact that after so large a program of assistance, carried out over so long a period, the rest of the world still finds it necessary to maintain drastic restrictions on trade and payment, directed particularly against this country, indicates strikingly the gravity of the world's dollar problem.

The average world dollar deficit of $4 billion a year covers up large and significant fluctuations as well as a declining trend. In 1947, before the Marshall Plan began, the deficit reached a peak of $11 billion, which was reduced by almost one-half in the first two years of the Marshall Plan. The first impact of the Korean war was greatly to reduce the deficit, to somewhat more than $1 billion in 1950, owing largely to our heavy buying of raw materials and other goods and services from abroad. But in 1951 the pendulum swung the other way, as the European countries felt the impact of the previous great rise of raw material prices as compared with the pre-Korean level, while the raw materials exporting countries, once the buying rush had subsided, felt the effects of the shrinkage in the volume and value of their exports. In the past two years there has again been a marked improvement. For the first time since the war our foreign trade, exclusive of military exports, has come into balance; and foreign gold and dollar reserves have increased at a rate that is currently running at well over $2 billion per year.

Of major importance for this Report is the interpretation of this current improvement. There is a disposition in some quarters to conclude that the world's dollar problem has at length been solved. This conclusion gains plausibility from the fact that, with some important exceptions, the Western European countries have been making substantial economic progress. Their industrial production is now much above prewar; foreign trade, both within Western Europe and with the outside world, is also much above prewar; the internal financial situation in most of the countries has much improved and inflation has been checked; direct internal controls have been removed or relaxed and, again with some exceptions, general monetary and fiscal controls have been more effectively applied. Finally, through the Organization for European Economic Cooperation, significant headway has been made toward liberalizing trade and widening the area of multilateral trade and payment, both within Western Europe and with its overseas trading areas.

This is an impressive record, and this Commission feels confidence in its conclusion that genuine progress has been made toward establishing the conditions in which multilateral trade and payment may be made worldwide, and the dollar deficit removed, not primarily through trade and payment restrictions but in a relatively free market. But it is the Commission's

view that much yet remains to be accomplished before a dependable and durable solution of the dollar problem can be achieved.

In interpreting the current improvement, account must be taken of a number of facts. It has been accompanied by a favorable change for Western Europe in the "terms of trade" -- a decline of import prices relative to export prices -- due largely to the decline of raw materials prices from the high level created by the outbreak of the Korean war. Europe's terms of trade have worsened since before World War II owing, basically, to the large growth of world industrial output since prewar and to the relatively small growth of production of raw materials and food, due in part to the urge of the primary producing countries to industrialize and diversify their economies. Looking to the future, there will be a major problem of developing the raw materials needed by the continuing industrial expansion; and though in the end this may prove one of the main ways of achieving a solution of the problem of world trade imbalance, it suggests also that for a long time to come the terms of trade may continue to be one of the chief problems. Here, clearly, is an area of international policy which should command our most serious attention.

Other uncertainties arise from the fact that, owing to the direct restriction abroad of dollar imports, the potential demand for dollar goods and services, in a free market and with convertible currencies, could substantially exceed the present restricted demand. There is the further fact that the recent high level of American imports, relative to earlier years, has been closely linked with the high level of our gross national product. Experience has shown that our imports are very sensitive to our level of national income, and that any contraction here has a multiplied effect in reducing foreign exports to this country.

There is, furthermore, an element of illusion in the present apparent balanced position of our trade (apart from military exports), in that large "extraordinary" dollar expenditures are still being made by the United States in other countries. As of the end of 1953 these were running at an annual rate of about $3 billion. These extraordinary expenditures consist of disbursements by our military and civilian establishments abroad, off-shore procurement, and stockpiling. If economic aid is also included, the total of extraordinary expenditures, as of the end of 1953, was running at about the rate of $5 billion per year. Against this total should be credited the current increase of foreign gold and dollar reserves which is running at a rate of over $2 billion per year. There is thus a concealed dollar gap of some $2 billion to $3 billion annually, which would be increased if there were a change in the economic situation, such as a recession here or a deterioration in Western Europe's terms of trade. On the other hand, it should be recognized that major parts of our "extraordinary" expenditures abroad are connected with our defense effort, and that the Western European countries' own defense programs affect adversely their trade position, by increasing their essential imports and by absorbing resources that would otherwise be available for expanding their exports.

Surveying the postwar experience as a whole, the Commission believes, as already stated, that much remains to be done to achieve a dependable international balance. It believes that the problem must be attacked on many fronts and that too much dependence should not be placed on any one line of attack. There is no single or simple solution. The final solution will probably depend even more upon the efforts of other countries than upon our own. It will involve their continuing internal efforts to achieve sound and strong economies and their external efforts to correct their international imbalance.

This Report, however, is primarily concerned with the steps that this country can take towards solving the world's dollar problem, steps that will be consistent with our own political, economic and security interests. Or, to employ the language of the statute under which this Commission was organized, this Report must deal with the enlargement of international trade in a manner consistent with a sound domestic economy.

FOREIGN AID AND TECHNICAL ASSISTANCE

The dollar problem has its source in basic maladjustments within the international economy that were caused by World War II and the following political disturbances. Our large foreign aid programs, which were directed toward the rapid restoration of economic and political stability within the free world, and the rebuilding of the military strength of our allies, dealt with these maladjustments on an emergency basis only.

That period has passed. The fundamental causes of the world's economic problems must now be analyzed, and solutions sought in the fields of investment, trade, and foreign exchange policies.

Before these other fields can be surveyed intelligently, however, our foreign aid must be reviewed, and its future role determined.

Economic and Military Aid

From the end of the war through June 1953, United States expenditures in the form of grants and loans to other countries amounted to $41.7 billion after taking into account loan repayments and other returns. Of this, $33 billion was economic aid and $8.7 billion military aid. In addition, on June 30, 1953, $7.9 billion of mutual security funds had been obligated but not spent, and $0.9 billion of Export-Import Bank funds were committed to various countries but not disbursed. Since fiscal 1949 economic aid has been declining, and since fiscal 1951 military aid has been increasing. A further $7.3 billion has been made available for all purposes for fiscal 1954, of which $5.3 billion or 73 per cent is military aid, and $2 billion or 27 per cent is economic aid. (See Table).

Had such aid not been given, friendly countries would have been forced to restrict their purchases of American goods and services to such a degree that economic and political chaos might well have ensued abroad. With the additional resources which American aid placed at their disposal, they were able to maintain politically tolerable levels of consumption; to carry out programs of reconstruction and development needed to restore their over-all levels of production, and gradually to reduce their dependence on our assistance; and after June 1950 to speed up their rearmament programs in the interests of the common defense of the free world. In many countries the most important economic objectives for which American economic aid has been extended in the past have been achieved, or nearly so.

The Commission is reluctant to make suggestions that would affect programs now in operation, or commitments already made. We note, however, that the $7.3 billion available now for present programs and commitments will be spent over a period of years. In planning future programs based on future appropriations the following comments and recommendations are offered.

Foreign Aid Made Available for Fiscal Year 1954
(Millions of dollars)

Appropriations under the Mutual Security Act of 1953			6,652
Military Assistance		5,113	
Europe	3,172		
Near East and Africa	583		
Asia and the Pacific	1,292		
American Republics	66		
Mutual Defense Financing		1,008	
Europe	336		
Formosa and Indo-China	102		
Manufacturing in France	85		
Manufacturing in the United Kingdom	85		
Indo-China Force Support	400		
Mutual Special Weapons		50	
Special Economic Assistance		266	
Arab States, Israel, and Iran	147		
Palestine Refugees	44		
India and Pakistan	75		
Technical Assistance		118	
Basic Materials Development		19	
Multilateral Organizations		79	
Other Authorizations and Appropriations 1/			663
Korean Reconstruction and Rehabilitation		200	
Civilian Relief in Korea		58	
Inter-American Highways		2	
Government Aid and Relief in Occupied Areas		3	
Wheat to Pakistan		100	
Famine Relief		100	
Transfer of Excess Military Equipment		200	
Total			7,315

1/ Includes $400 million in authorizations by Congress without appropriations as follows (last three items on table before total): up to $100 million in wheat stocks of the Commodity Credit Corporation to be transferred to Pakistan, and up to $100 million for emergency famine relief from stocks of the C.C.C., appropriations for these purposes authorized to be requested later; and the transfer of $200 million of excess military equipment to other countries as a grant, without appropriations, when items are declared to be in excess of the needs of U.S. military services.

The Commission recommends that economic aid on a grant basis should be terminated as soon as possible. No further aid is justified unless it contributes to the security of the United States. Our security involves defense against communist aggression or infiltration here and all over the free world. The greatest expenditures are now for military defense, but our security must take into account many political and economic considerations. The security of the United States is bound up with that of the free world.

It is not within the province of this Commission to make any recommendations on such military aid programs as may be necessary to safeguard the security of the United States. It is, however, imperative that every item entering these programs should be scrutinized with the utmost care as to its cost, its design (including the use of scarce materials important to the strength of the civilian economy), and its essentiality for the purpose in view, in order to minimize the burdens being borne by the American people. It is also essential that when decisions are made concerning the scale of the military effort to which these programs contribute, due consideration should be given to the economic problems which result, because these may have important implications for our foreign economic policy. For example, very large quantities of American designed equipment are being used by the armed forces of countries which have not developed a replacement parts industry. The total cost of maintaining and repairing such equipment in Europe alone might be between $1 billion and $2 billion annually. Obsolescence will impose additional dollar costs. Unless replacement facilities are built up under the offshore procurement program or this problem is solved by other means, the dollar position of our allies may be very adversely affected.

The United States is now giving economic aid to several countries which do not have the economic capacity to maintain the military effort that is deemed essential by the NATO Council and by our Government to deter aggression. Among these countries are Greece, Turkey, Spain, and Yugoslavia in Europe, and Indochina and Formosa in the Far East. It is also extending very large scale economic aid to France to enable France to increase its military effort to bring the war in Indochina to a successful conclusion, and small amounts to the United Kingdom, Italy, and Germany (Berlin) for special purposes. This aid has been given the new name of "defense support" or "mutual defense financing." The distinction between military and economic aid is blurred by the use of such terms in a way which the Commission believes is undesirable. Though "defense support" is defended first and foremost as a means of preventing an undesirable reduction in the defense effort, it also serves all the economic ends which have been advanced in justification of economic aid in the past. It is a form of economic aid and should be so denominated.

General support is also being given to the economies of our European allies, including the United Kingdom, through offshore procurement--that is, the purchase of military items in a foreign country for transfer to the same country or to other foreign countries as military aid. The Commission recognizes that, from an economic point of view, offshore procurement has certain advantages as compared to grant aid such as was given under the European Recovery Program. If so administered as to encourage an increase of productive capacity on a competitive basis, it may be a step towards a solution of Europe's remaining dollar problem. The primary purpose of offshore procurement, however, is military. For the military purpose of offshore procurement to be served effectively, the Commission recommends that contracts for the production of military equipment be placed abroad on the basis of the considerations of cost, availability, and quality of the items purchased that govern effective procurement policy at home, or on broad stretegic judgments concerning the character and location of the military production base on which the success of the Joint defense effort depends. The offshore procurement program should not be used as a form of general economic aid.

Our foreign aid programs up to the present have been carried on by a combination of grants, loans, and guaranties, with overwhelming emphasis on grants which have been decreasing for economic purposes and increasing for military purposes. At present, as the need for economic aid for post-war recovery disappears, demands are increasing for general economic aid unconnected with recovery from war or preparation for defense. Underdeveloped areas are claiming a right to economic aid from the United States, in proposals in the United Nations and the Interparliamentary Union. We recognize no such right.

In Europe, with the exceptions previously mentioned, there now appears to be no need for further economic aid in the form of grants. This is a source of satisfaction to our European allies who are as anxious as we are to terminate the giver and receiver relationship.

In other sections of this Report the Commission recommends steps that should be taken to assist underdeveloped countries in obtaining an adequate flow of capital from the United States without resort to grants-in-aid. In cases where our security is importantly involved, the Commission believes that moderate grants-in-aid may serve the national interest of the United States.

The Commission recommends further that where support is needed to maintain military forces or to conduct military operations connected with our own security beyond the economic capacity of a country to sustain, grants should be made, not loans. 1/

In other cases where substantial economic aid is necessary in the interest of the United States but cannot be obtained from private or international sources, loans should be made, not grants. 1/

The Commission is confident that the response of the United States to the emergency need of countries suffering from drought, famine, or other natural disaster will be prompt and generous.

1/ (Mr. George and Mr. Byrd dissent from these two recommendations.)
(Mr. McDonald dissents from that section of the Report relating to FOREIGN AID.)

1/ (Dissent of Mr. Byrd and Mr. George from two recommendations on FOREIGN AID.)

The Commission recommends that economic aid on a grant basis should be terminated as soon as possible. The foregoing recommendations are inconsistent with that general recommendation, in our opinion.

Also, the members of the NATO countries have themselves voluntarily agreed to maintain certain military forces and to conduct certain military operations. Recommendation No. 1 above is wholly inconsistent with this agreement, as we interpret it. Also, the general recommendation that grants should be made to a country "where support is needed to maintain military forces or to conduct military operations connected with our own security beyond the economic capacity of a country to sustain" offers a wide open loophole through which grants can be made to countries all over the globe and it cannot be said that at least the friendly disposition of such countries and their possible military activities may not have some connection with our own security.

We are also of the opinion that the second recommendation "where substantial economic aid is necessary in the interest of the United States but cannot be obtained from private or international sources", loans should be made, not grants. This is but another loophole which will, as we fear, continue economic aid indefinitely. Where a country cannot obtain from private or international sources loans necessary in its own interest, it is obvious that such loans become in fact grants. In our opinion, generally the granting of foreign aid is not a sound alternative to trade and should not be continued as an expedient for maintaining balance in international accounts.

(End of dissent of Mr. George and Mr. Byrd.)

(Dissent of Mr. McDonald on FOREIGN AID.)

The concept of national interest that characterizes this section of the Report impresses me as being too narrow. The casual reader might conclude that all that matters is the military security of the United States.

I, too, believe that the foreign economic policy of the United States should be determined by the enlightened self-interest of the United States. But this self-interest I conceive to be very broad and as involving both the military security and the economic prosperity of all the nations of the free world. It is to our advantage that all people throughout the free world be well off economically. It is not merely a question of being prepared for war; it is a question of economic welfare being desirable in its own right, and a necessary pre-condition of peace.

I, for one, am not prepared at this time to say that the United States should no longer grant any foreign aid for purposes other than military security. I think that direct grants for economic purposes to countries that are already economically well-developed should be terminated as soon as practicable. But this is not to say that it might not be desirable from time to time to make exceptions in certain important cases, particularly where continuing economic assistance might contribute to political stability.

Neither do I agree with the hard and fast distinction made in the Report between "military" and "economic" aid. This distinction may be satisfactory for certain rough purposes but, as used in the Report, it seems inappropriate. It gives too much of an impression of absolute "black" and absolute "white". Although it might be a good rule of thumb to conclude that as far as possible military operations should be financed by grants, whereas economic aid should be financed by loans, this is an ideal that cannot always be carried out in practice.

(End of Mr. McDonald's dissent)

Technical Assistance

The Commission does not include within economic aid what is often called "technical assistance".

The United States is now engaged in bilateral programs of technical cooperation in 38 countries for which about $120 million has been made available this year. These programs are undertaken only at the request of the host government. They are operated on a share-the-cost basis and they are intended eventually to be taken over completely by the host governments. The United States also participates in the United Nations Expanded Program of Technical Assistance, operating on a budget of about $21 million to which it contributes about 60 per cent, and in the smaller program of the Organization of American States.

All these are essentially programs of education and training in the knowledge and techniques required for economic development, including the administrative skills needed to create and manage institutions which are indispensable for such development.

The principal limitation on the effectiveness of the bilateral programs has been the availability of trained technicians, but there have also been legitimate criticisms of the way in which they have been administered. Among these are excessive overhead of personnel in administrative activities, development of red-tape procedures, defects in procurement which have at times nullified or postponed the success of programs in the field, the employment in the field of personnel without technical training, and attempts to carry out programs that are too diversified to be effective. Many technical assistance operations cannot be successful unless supplies are available for demonstration purposes, but this "commodity component" has in some cases been unnecessarily large, and has become economic aid rather than technical assistance.

These defects are capable of being remedied, and to some extent are being remedied, by administrative action. They do not touch the broad objectives of the program as a whole to which the Commission attaches great importance.

The Commission recommends that within the limits imposed by Congressional appropriations, the need for selecting only sound projects, the availability of trained technicians, and good administrations, the technical cooperation program be pressed forward vigorously. It need not and should not become a "big money" program and should not involve capital investments.

The Commission also recommends that the United States continue its support of the United Nations Expanded Technical Assistance Program and the small program of the Organization of American States, through which the technical skills of many countries can be better mobilized and some dependent area and regional problems can be more effectively approached than through bilateral programs.

The Commission attaches special importance to the strengthening of the technical assistance work of the United Nations. It believes, however, that no country should contribute as much as 60 per cent of the financing of this worldwide cooperative effort. It believes that some expansion of this program would be desirable, but that the United States percentage share in the cost should be reduced.

The Commission wishes to stress the great potential importance of the technical assistance programs in contributing to improved standards of living in countries with half the world population, in counteracting communist influence, and in helping to solve the problems of trade and investment dealt with elsewhere in this Report.

All American military, economic and technical aid to other countries is rooted in the national interest of the United States. Such aid is acceptable to other countries only if it also serves their national interests. The fundamental basis on which all foreign aid operations should rest, therefore, is mutual interest. Mutual interest cannot be created by pressure and can be destroyed by coercion. Foreign aid, therefore, should not become an instrument of coercion, and the fixing of conditions on which it is extended should be limited by this principle.

(Mr. McDonald dissents from that section of the Report relating to Technical Assistance.)

(Dissent of Mr. McDonald on Technical Assistance.)

The recommendations on technical assistance to underdeveloped countries are too weak and negative. I believe that the United States should be proud of what it has done by way of assistance to underdeveloped areas. The "Point Four" program electrified the imagination of the world as did the Marshall Plan before it. The accomplishments under it have been so promising that we should do all that we can to strengthen it, including making available more adequate appropriations to extend its usefulness.

(End of Mr. McDonald's dissent)

PROGRESS AND RESPONSIBILITY

The free world must build its long-term future, not upon extraordinary assistance from the United States, but upon the resources and the efforts of the citizens of each country. That the foundations for such an international economy have already been laid is now clear, and it is reasonable to believe that with mutual helpfulness and understanding a self-sustaining trade and payments system can be built solidly for the future.

There are encouraging signs that the world stands at the beginning of an era of expansion of world trade. Industrialized countries are coming to need more and more of the materials which the underdeveloped areas can provide. The latter, in turn, are demanding increasingly greater volumes of the machinery, industrial materials, and highly fabricated consumer goods that go with economic growth. The time seems to be ripe for obtaining the benefits of swelling international commerce.

To achieve this growth, however, the free world must remove many of the impediments which still exist to the movement of goods, capital, and currencies. All of the countries involved must seek greater stability in the economic world by adopting sound internal fiscal policies, and must demonstrate confidence in their ability to earn their own way. To a greater extent than they have hitherto recognized, many of the countries must intensify their own efforts, must strive to create an economic climate that will attract investment capital, both from their own citizens and from foreign sources, and must lift the restrictions that limit the freedom of the mechanism of international payments.

In all this, the United States must exercise wise leadership. In so doing, we must remember that the alliance of the free world consists of agreements among sovereign nations. Each has its own aspirations and its own way of life. The government of each has responsibilities to its own citizens which are direct and immediate, and which would understandably qualify the decisions to be taken in the development of a system of multilateral world trade and payments. The recommendations and proposals that follow in this Report have been framed with these thoughts in mind.

Following the clear mandate of the statute under which it was organized, the Commission has concentrated upon measures which it recommends to the Government of the United States. But implicit in all that it recommends is the necessity for like action by other nations. The United States cannot do this job alone. Our actions must be matched by comparable efforts on the part of the other nations of the free world. Only by acting together can we develop a system of international economic relations that our mutual welfare and security so urgently require.

UNITED STATES FOREIGN INVESTMENT

In considering the enlargement of international trade in a manner consistent with a sound domestic economy, and our foreign economic policy, no subject could be more urgent than an examination of the problems having to do with the flow of investment capital to those areas in the free world where it is most needed.

Fortunately, the economic welfare of the United States would itself be directly promoted by an increased movement abroad of sound investment by United States nationals and corporations. Such a flow, if well conceived and directed, would not only contribute to an increase in international trade, but would assist in the maintenance of high levels of economic activity and employment within our own country. It can increase our national income by taking advantage of opportunities for more profitable investment. It can aid in the development abroad of primary resources to meet the ever-increasing civilian and defense needs of the United States and the free world. And, since private United States investment usually carries with it management and technical skills, it can contribute strongly to the economic development of foreign countries.

Such an increased flow of private investment abroad can also assist in attaining United States foreign policy objectives through strengthening the economy of the free world, and can reduce the burden of military aid by increasing productivity abroad.

During the period 1948-1952, United States private long-term investment abroad increased at an average annual rate of $1.5 billion. Of this total, additions to holdings of foreign securities by private individuals and financial institutions accounted for only $200 million per year, mostly in investments in Canada or in securities of the International Bank for Reconstruction and Development. The remaining $1.3 billion per year was about equally divided between net new direct investments abroad of American corporations and reinvestment of earnings from their foreign operations.

During the same period, the value of United States Government foreign loans outstanding increased at an average annual rate of $500 million. Repayments on old loans now nearly equal new lending. Disbursements by the International Bank averaged $139 million per year during the period.

United States investment abroad has not increased as rapidly as anticipated at the end of the war, and the United States has not achieved all of the benefits which might have resulted from an expanded volume of wise foreign investment.

The Conditions Conducive to Private Investment Abroad.

The small flow of private investment abroad may be attributed to the concern of potential investors over the general political, economic, and military uncertainties abroad, as well as over other aspects of the "climate" for investment in particular countries. Many of the deterrents can be overcome only gradually. Countries desiring to attract capital must provide a secure legal status for private capital and enterprise, domestic as well as foreign. United States investors can hardly be expected to venture into countries and fields which local capital and enterprise consider unattractive or insecure. On the other hand, United States investors will venture into areas of political and economic stability which provide fair and equitable treatment and with it an opportunity for reasonable profit and assurance of remitting earnings.

There are various types of action which the United States Government can take to encourage the flow of private investment abroad.

The Government can and should give full diplomatic support to the acceptance and understanding abroad of the principles underlying the creation of a climate conducive to private foreign investment. This requires better coordination of policy and action by the various United States agencies and representatives in the field of foreign economic policy, and, in particular, a clear formulation of the Government's position with respect to private investment abroad, stressing support of the private enterprise system and the interests of United States investors.

To some extent the general climate and legal environment for private investment may also be improved through the negotiation of international treaties relating to foreign investment. Although it must be recognized that such treaties more often record the existence of a favorable climate than create it, the discussions which take place in the attempt of two governments to reach agreement may in themselves be beneficial. The United States Government should continue to use the treaty approach to establish common rules on the fair treatment of foreign investment. Negotiations should be undertaken first with like-minded countries, and gradually be extended as additional countries become convinced of the desirability of a friendly attitude towards private enterprise.

The United States Government also can remove uncertainties in its own policies which affect foreign investment.

One uncertainty relates to the application of United States antitrust laws to operations abroad. United States antitrust policies should be restated in a manner which would clearly acknowledge the right of each country to regulate trade within its own borders. At the same time it should be made clear that foreign laws or established business practices which encourage restrictive price, production, or marketing arrangements will limit the willingness of United States businessmen to invest abroad and will reduce the benefits of investment from abroad to the economies of the host countries.

Another source of uncertainty which affects the willingness of foreign countries to accept private capital from abroad relates to United States policy in the field of public financing. The United States Government should make clear that primary reliance must be placed on private investment to undertake the job of assisting in economic development abroad. It should point out that United States resources for public loans are limited and inadequate in relation to total investment needs, and that public lending or other forms of public financing will not be a substitute for private investment.

In addition to these general activities in the field of diplomatic and foreign policy, there are two specific areas in which the Government can take action to encourage the flow of private investment abroad. It can provide an inducement to foreign investment by removing certain United States tax burdens and inequities. It can mitigate, or remove, certain risks peculiar to foreign investment by providing Government guaranties or insurance not available from commercial sources.

U. S. Taxation and Investment Abroad.

The nature of United States taxation of income earned outside the country is an important determinant of the flow of United States private investment abroad. At present, income from foreign investments is taxed at the same rates as income from investments within the United States. An attempt is made to avoid double taxation by allowing the taxpayer to credit certain of his foreign taxes against his domestic tax bill. However, the existing restrictions on the use of the foreign tax credit may prevent the taxpayer from offsetting in full the appropriate foreign taxes which he has paid.

As a result of this system of taxation the United States investor abroad is placed at a disadvantage in competition with international investors from other nations which levy little or no tax on income earned abroad. Furthermore, United States tax policy serves to offset any tax reductions by which foreign governments might seek to attract investment from the United States. United States tax laws may even result in pressure on foreign governments to adopt income taxes or to increase their income tax rates.

A study of these considerations leads the Commission to recommend three revisions in the Revenue Code.

(1) Rate Reduction.

The principle of rate reduction - now applicable to the foreign income of Western Hemisphere Trade Corporations - should be extended to other taxpayers on their foreign income. The rate reduction may be justified on the principle that income from abroad is earned without the full benefit of the many services and protections which the United States Government provides to investments at home. This argument has been extended by some to support the idea of complete tax exemption for foreign income. However, the Commission believes that a partial rate reduction is more appropriate since a United States investor abroad does receive certain services and protections from the United States Government and does have certain general tax obligations as a United States citizen.

The Commission recommends that there be a reduction in the corporate tax rate by at least 14 percentage points on income from investment abroad. As a result of such reductions, when the tax rates of a foreign country are not in excess of the reduced United States rates, the taxes of a corporation previously paying taxes at a 52 per cent rate would be reduced to 38 per cent on income from investment in that country. The existing reduction in the taxation of the income of a Western Hemisphere Trade Corporation amounts to 14 percentage points, but this reduction is now too limited in some respects and too broad in others. The Commission recommends that the lower corporate tax rate be made to apply to investment income from all areas abroad; but the reduced rate should not apply to income from exports which do not involve the risks of investment abroad.

The United States corporate investor will enjoy the full effect of the United States rate reduction on foreign income only where the foreign corporate tax rate is no more than the reduced United States rate. Investment will be stimulated particularly in the underdeveloped nations, which in general have the lower income tax rates. Where the foreign tax rates are not high, the percentage tax reduction should provide considerable encouragement to direct corporate investment abroad.

The Commission believes that in many instances investments abroad by United States citizens and investment trusts also deserve encouragement. Such investors now pay the full United States rates of tax on income from investments in those same countries in which it is recommended that investment be encouraged by a tax reduction for United States corporations. The Commission recognizes that it is a far more difficult task of tax legislation to draft equitable tax incentives to apply to individuals, with their varying tax rates, than it is to provide fair tax incentives to corporate investors. Nonetheless the Commission recommends that the Congress seek to provide to individuals who invest abroad - by means of a rate reduction, a foreign tax credit, or some other device - preferential tax treatment comparable to that already recommended for corporate investors. Moreover, if in the future there should be an across-the-board reduction in the United States personal taxation of dividend income, this reduction should be applied to dividends from abroad as well as to dividends from investment at home. These measures would provide encouragement to investment by United States citizens and investment trusts in private business abroad, and would help to interest the vast United States securities market in possibilities for profitable investment in economic development abroad.

(2) Removal of Certain Restrictions on Foreign Tax Credits.

The Commission recommends that the Congress remove several restrictions which now prevent a person who invests abroad from offsetting in full against his domestic tax the appropriate foreign taxes. Investment abroad is discouraged since these restrictions impose a higher total tax on income from foreign investments than on income from investment at home.

(a) Under present law a United States corporation owning 10 per cent or more of the voting stock of a foreign corporation may credit against its United States tax on the dividends received from the foreign corporation a proportionate share of the foreign income taxes paid by the foreign corporation on the earnings from which the dividend was distributed. This 10 per cent ownership requirement should be reduced or eliminated if satisfactory administrative standards can be devised for dealing with smaller holdings. Under present law an individual investor can credit foreign taxes which are imposed directly on his income from abroad. The individual investor can, for example, credit the 15 per cent Canadian withholding tax on dividends paid to a United States investor. This credit is lost, however, when the United States citizen invests through an investment trust. Provision should be made for the investment trusts, not only to receive, but to pass on to the individual shareholder the credit for foreign taxes available to individual investors.

(b) The foreign tax credits are also limited to income taxes and to taxes in lieu of a tax on income. This requirement that the foreign country have a general income tax to which the investor would be subject in the absence of a special provision applicable to him has clearly been too restrictive. The interpretation of what taxes are in lieu of income taxes should be liberalized in this and other respects.

(c) The Commission recommends further that the "over-all" limitation on foreign tax credits be eliminated. This limitation requires losses in one foreign country to be set off against income from another in determining the total of foreign income which can justify a tax credit. This limitation, by reducing the foreign tax credit, deprives the taxpayer of the full tax benefit of foreign losses so long as he has offsetting foreign income. The limitation is a serious deterrent to the commencement of operations in a new foreign country by a taxpayer having profitable operations in other foreign countries.

One final limitation on foreign tax credits, the "per country" limitation, is necessary to prevent foreign taxes in excess of United States tax rates from being credited against other taxes due to the United States. The Commission recommends that this limitation be continued.

(3) The Choice of Form of Investment Abroad.

In the view of the Commission, United States tax law should not penalize investors for adopting the form of organization dictated by local laws or business conditions abroad. In order to reduce the possibility of such penalties the Commission recommends that a United States corporation be allowed the option of treating any direct foreign investment either as a branch or a subsidiary for United States tax purposes, regardless of which of the two forms of organization is actually chosen for operations abroad. The choice of treatment for tax purposes should be binding, however, until for good cause the United States Treasury allows a change.

To give effect to this recommendation the Treasury should be in a position to allow a corporation investing in a foreign branch to request for its branch tax treatment as a foreign subsidiary. In so doing the corporation would forego the privilege of deducting branch losses and depletion costs from domestic income. At the same time the corporation would gain the opportunity to defer reporting its income from the branch.

Similarly, a corporation investing in a foreign subsidiary should be allowed to request for its subsidiary tax treatment as a foreign branch, thus losing deferral privileges and gaining loss and depletion privileges with respect to its foreign investment. One way in which this might be accomplished would be to allow a United States parent corporation to consolidate its returns for tax purposes with any of its foreign subsidiaries. The rules for consolidation with foreign subsidiaries might be made comparable to those for consolidation with domestic subsidiaries but with minimum ownership requirements adapted to the special conditions of investment abroad. Also, because of the special considerations leading to the permission for consolidation with a foreign subsidiary, such consolidation probably should not in itself result in the two per cent penalty tax now imposed on the total income of any corporation consolidating with any of its domestic subsidiaries.

Other Tax Proposals.

Of the other tax changes frequently proposed in the field of foreign investment, one has received particular attention in recent months. It has been suggested that rapid amortization of a large percentage of new investment abroad be allowed. A major difficulty in this proposal is that it would involve the Government in great administrative complexity arising from the task of certifying individual investments abroad. There is furthermore the problem of fairness as between new investments and old investments when a tax benefit is provided by rapid amortization to a new competitor in the field.

Some investments abroad may be discouraged by the nature and rigidities of the present depreciation and amortization rules of the Treasury, but this problem exists for investments at home as well as for those abroad. There is now under way a review of these rules, any improvement in which will meet in part the argument for special amortization allowances on investment abroad.

In the Commission's view the proposal for rapid amortization of foreign investments not only raises problems of administration and discrimination, but is not justified by the additional incentive which it might afford. The tax changes which have been recommended can be justified in principle and would, in a relatively simple manner, provide substantial encouragement to investment abroad.

Government Guaranty of Private Investment Abroad.

For the last few years the United States Government has offered to guarantee approved United States private investments in certain countries, mainly in Europe, against loss from exchange inconvertibility or expropriation.

This guaranty, or insurance, program was introduced in the hope that it would reduce the need for foreign aid expenditures. To date the program has not greatly stimulated private investment abroad. Coverage has been given to only $41 million of new investment. Thus far the Government has not been required to pay out on any policy and nearly $1 million has been earned in the form of fees.

Government guaranty of an investment project abroad is closely akin to public loan assistance to the project. Both the guaranty and the loan require governmental involvement in private business undertakings. Yet, in those projects which will serve an essential public purpose but which will not be undertaken by private capital alone, the guaranty technique has a significant advantage over the public loan. Under the guaranty procedure the Government is not required to judge commercial risks. These risks are left to the private investors, who are presumably best qualified to judge them.

A further advantage of the guaranty program is that it removes a barrier to the initial consideration of private investment projects abroad. In some cases the confidence that extraordinary political risks could be guaranteed if necessary has led investors to look more deeply into investment opportunities which, after careful investigation, appeared promising enough without Government guaranty.

A disadvantage of the guaranty device is that it tends to conceal the extent of the Government's stake in an investment project. As a result there is a danger that the desirability of Government guaranty assistance to any project will be determined after less careful consideration than would be given to the desirability of a direct Government loan to the project, even though the loan might involve the Government in the same order of risk as the guaranty. Elimination of this danger is, however, solely a matter of administration.

The Commission considers that the present experimental program has not proved itself. On the other hand, a number of potential investors continue to show interest in the guaranty device. Many investors have suggested that the program would be more conducive to additional investment abroad if it were extended in some areas to cover the risks of war, revolution, and insurrection. To the Commission, such risks actually seem to be the most appropriate risks of all for Government insurance. The Commission therefore recommends that the program of guaranties against expropriation or inconvertibility of exchange be given a further period of trial and that during this period guaranty coverage on a discretionary basis be authorized for the risks of war, revolution, and insurrection on new investments abroad. 1/

1/ (Mr. Millikin, Mr. Hickenlooper, Mr. Byrd, Mr. George, Mr. Reed and Mr. Simpson dissent from this recommendation.)

The Role of Public Lending.

Although the United States Government should place primary reliance on private enterprise and investment to assist in economic development abroad, there are special circumstances in which United States economic and foreign policy objectives can be served by public lending. Loans by the Export-Import Bank have been made to expand the foreign production of raw materials needed for defense purposes. In order to achieve vital foreign policy objectives in certain areas, the Export-Import Bank has made loans for such purposes as reconstruction of earthquake damage in Ecuador, and for helping countries to adjust to political developments favorable to United States interests, as exemplified by the loan to Yugoslavia following that country's break with the USSR. The Export-Import Bank has also made loans for the general economic development of foreign countries where such loans supported the special national interests of the United States.

The expansion of basic facilities, such as transportation, harbors, and irrigation, is frequently essential for a balanced growth of the less developed countries, most of which lack the capital required to finance projects of this type. Loans by the Export-Import Bank and the International Bank for Reconstruction and Development to finance such basic facilities are often a necessary condition for increased private foreign investment in raw materials, manufacturing, and distribution--fields which are more attractive to private foreign investors. Wherever possible, such loans should be made to private enterprise abroad, and foreign public lending should not encourage the displacement of private by public operations. It should also be emphasized that public lending should not compete with, or displace, private foreign investment, including private loans to foreign borrowers, and this principle should be made abundantly clear to prospective borrowers.

Roles of the International Bank and the Export-Import Bank.

The Export-Import Bank is essentially an instrument of United States foreign policy. The International Bank for Reconstruction and Development, on the other hand, promotes the interests of the United States broadly in the field of foreign economic development. The record does not indicate that there has been harmful competition or duplication in the operations of the two banks. The Congress, in the Bretton Woods Act of 1945, established the National Advisory Council on International Monetary and Financial Problems to coordinate the policies of the Export-Import Bank with the activities of the United States representatives on the board of the International Bank. This machinery should be employed to resolve any issues between the two banks.

The International Bank has demonstrated its capacity to apply banking principles in the field of public lending, and plays a useful role in the achievement of the vital objectives of increasing trade and raising living standards in the free world. On the other hand, the national interests of the United States may require the making of certain loans by the Export-Import Bank, which the International Bank will not make because of its charter limitations or for other reasons. For example, the Export-Import Bank can make loans to private United States or foreign investors operating abroad without a foreign government guaranty; the International Bank can make loans only to member governments or to residents of member countries with the guaranty of the member government.

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While it is believed that the Export-Import Bank should continue to make loans which are in the special interests of the United States, the bank should not use its own funds for loans which do not meet reasonable standards of bankability. In general, loans which do not meet reasonable financial standards are likely to create serious administrative difficulties by setting up dual standards for the treatment of international obligations. Nevertheless, in cases where there is an urgent political need for foreign financial assistance to a country whose capacity to service additional loans is doubtful, and where such assistance is deemed by the Congress to be more appropriate on a loan rather than a grant basis, special funds should be authorized for such purposes.

Foreign Investment and Economic Stability.

United States investment abroad, public and private, provides additional markets for United States exports. The financing of exports by public loans has been, and can be, helpful, not only in maintaining domestic production and employment when domestic demand falls off, but also in assisting foreign countries in procuring the United States goods necessary to their growth. The financing of exports by short-term loans from the Export-Import Bank may provide a stimulus to exports. Long-term loans for carefully selected development projects not only will increase United States exports, but are also likely to create a better international balance by assisting foreign countries in expanding their capacity to export to the United States and to third countries.

International balance may also be affected by the pattern of total United States capital outflow. Because of the large United States Government loans made immediately following World War II, repayments on old loans from this source are now running at a rate of about $400 million annually, plus another $230 million in interest payments. United States Government lending is now little more than sufficient to offset the repayment of principal on old loans. Direct private investment, on the other hand, has been reasonably stable over the past few years. Any sharp decline in the total flow of investment abroad would create severe problems of adjustment in American export industries and in the development programs of the other nations of the free world. Moreover, a rapid fall in United States foreign investment, such as occurred during the period 1928-1933, would inevitably put a strain on the balance of payments position of other countries and might lead to a tightening of trade and exchange restrictions or defaults on foreign obligations.

(Mr. McDonald has submitted a separate concurring opinion on FOREIGN INVESTMENT.)

(Mr. McDonald's Separate Concurring Opinion on
UNITED STATES FOREIGN INVESTMENT.)

Although it is doubtful whether foreign investment offers as great promise as this report makes it appear as a solution to international economic imbalance, I agree that the special concessions to foreign investors called for herein are in the national interest of the United States.

We should not be oblivious of the fact, however, that many of the actions called for in this section are of the nature of subsidy. In general terms this section of the report recommends (1) diplomatic effort to secure acceptance abroad for principles conducive to a favorable "climate" for private investment, (2) the negotiation of special treaties relating to foreign investment, and (3) removal by the United States of uncertainties that affect foreign investment including application of antitrust laws. More specifically, it calls for (1) removal of tax burdens and inequities, (2) rate reductions on income from foreign investments, (3) elimination of double taxation, and (4) the elimination of "over-all" limitations on foreign tax credits. Also it would allow companies having branches or subsidiaries abroad to declare them either way for tax purposes. It also recommends government guarantees, or insurance, for certain risks peculiar to foreign investment beyond guarantees under present law against loss from exchange inconvertibility or expropriation, including war, revolution, and insurrection.

Many of these recommendations would bestow important favors upon those who choose to invest abroad, favors intended to induce people to act in the national interest. This, undoubtedly, is wise national policy, but it does not eliminate the fact that the subsidy principle is involved. I see no reason why the subsidy route should not also be used, within reasonable limits, to ease the adjustments which workers, employers, and a few communities might have to make in the event of effective tariff reduction.

I should also like to call attention to the great emphasis that this section of the report places upon private, as contrasted with public, foreign investment. Although I agree with the general principle involved, I think we should admit with more forthrightness that there may be cases where public foreign investment is amply justified. We should not make a fetish of our opposition to public foreign lending.

I also think that there is danger in pinning too much hope upon foreign investment, as such, as a solution to our foreign economic problems. Foreign investment, at best, is a relatively short-term solution to the problem of dollar imbalance. As long as the nation's capital outflow is in excess of the inflow of earnings and amortization of existing investments we can continue having a "favorable" balance of trade. The time will come, however, when the inflow will exceed the outflow of new investment. When this point is reached we shall have to become accustomed to an "unfavorable" balance of trade. For this reason foreign investment has the virtue of giving us additional time in which to make the inevitable accommodation to increased commodity imports.

(End of Mr. McDonald's separate concurring opinion.)

PROBLEMS OF AGRICULTURE AND RAW MATERIALS

It is not the responsibility of this Commission to reformulate the agricultural policy of the United States. That responsibility rests elsewhere. However, no survey of steps to be taken for the enlargement of international trade in a manner consistent with a sound domestic economy for the United States could ignore the problems of agriculture and the prices of raw materials.

Importance of International Trade to Agriculture

Foreign handicaps to the free flow of international trade such as inconvertible currencies, exchange controls, import quotas, and special import licenses exert a depressing influence upon the exports of farm products from the United States, especially when such products are available from non-dollar areas. American farmers therefore have a keen interest in measures which will reduce or eliminate such discrimination against the free movement of U. S. farm products into world markets.

Export markets are of vital importance for our great staple farm products such as cotton, wheat, tobacco, rice, and soy beans. In recent years one-third of our wheat, 40 per cent of our cotton and rice, and one-fourth of our tobacco and soy beans have been exported. Such export markets are also important to the producers of fresh and dried fruits, dry beans and peas, condensed, evaporated, and dried milk, and a considerable list of other products. In all, farm products representing about 30 per cent of the value of farm marketings in 1952 were dependent to a highly important degree upon export markets.

It would be unrealistic to expect the total volume of our farm product exports to continue at the level attained during the period of post-war reconstruction, when foreign supplies of such products were limited as a result of the war and when large U.S. foreign aid expenditures were financing a large fraction of such exports from the U.S. In order to minimize the repercussions on agriculture of any inevitable decline in farm exports, however, it is important to take such steps as can be taken to maximize a continuing flow of U.S. farm products into world markets. Failure to do so would adversely affect not only those segments of agriculture directly concerned with export markets but also, as a result of the diversion of resources from these to other farm enterprises, other segments of our farm economy. The prospect of such repercussions is already evident in the shift of wheat and cotton acreages to other farm enterprises for the 1954 harvest, as a result of the curtailment of these crops that has been ordered, partly in view of the decline in exports of wheat and cotton during 1952-53.

Conflict between Farm Policies and Enlargement of International Trade

Consideration of policies designed to bring about enlargement of our trade in farm products must of necessity include certain phases of our

domestic farm policies. Agriculture's interest in foreign markets and in a constructive foreign economic policy is so great that it must not be sacrificed by failure to make urgently needed improvements in those farm policies which are in obvious conflict with trade policies that are vital to our entire economy, including agriculture. The maintenance of a strong agriculture is essential to the maintenance of a sound American economy. But the strength of American agriculture, great though it is, is being weakened by the inflexibility of the present scheme of price supports and their consequences.

In the opinion of the Commission, it is necessary to harmonize our agricultural and foreign economic policies without sacrificing the sound objectives of either.

The inherent conflict is not between foreign trade policy and farm policy as such, but rather between foreign trade policy and the means by which an important phase of our farm policy is being implemented. To put the matter boldly, it is necessary to emphasize that inflexible price-support programs which hold domestic prices above world prices become price-fixing programs and result in accumulations of surpluses that would otherwise have moved into consumption here or abroad. To maintain such price-fixing programs it may become necessary for the U.S. to apply trade restrictions of various kinds, including import quotas, to keep down foreign importations. To move high-priced surpluses into export markets it may seem necessary to use export subsidies or dumping procedures that, if practiced with respect to imports into this country, would involve the application of our anti-dumping and countervailing-duty laws. Price-fixing, particularly with reference to commodities moving in international trade, is inherently incompatible with a pattern of private trade, free enterprise, and non-discriminatory commerce among nations.

The International Wheat Agreement has contributed little to the solution of wheat problems of the U.S. and the world at large. Its chief significance has been to accord official sanction, on the part of the participating nations, to U.S. export subsidization of the U.S. quota when non-quota export prices were at or above the agreed maximum. At heavy expense to the U.S. Treasury, this has contributed to the persistence of excessive domestic support prices, which have given undue stimulus to wheat production here and abroad, and has tended to obstruct, rather than to facilitate, normal readjustments in U.S. agriculture, and to lead to abnormal accumulation of stocks of wheat. In the current season, when export prices are below the agreed maximum, the importing countries are relieved of their obligation to purchase wheat unless the prices drop below the agreed minimum level. Furthermore, the most important importing country is no longer a party to the agreement. Under these circumstances the significance of the agreement in relation to our wheat export problem is relatively slight.

Ample evidence of the unavoidable consequences of the price-fixing policies required by present law under mandatory price-support programs is provided by the developments listed below.

(a) Burdensome accumulations of a number of farm products under Commodity Credit Corporation purchase and loan programs. Under the present

price-support program, the CCC owned or held under non-recourse loans on October 31, 1953 in excess of $4.5 billion worth of farm products. This amount is now being increased very substantially as the 1953 crops of cotton and corn are placed under CCC loans.

(b) Reduction in the exports of some products due in part to the pricing of these products above the world level of prices. In all, more than 60 per cent of the present holdings of commodities by the CCC (including amounts under loan) is represented by commodities which are normally exported in large volume, especially wheat, cotton, and tobacco.

(c) Continued resort to heavy expenditures for export subsidies.

(d) Pressure for import quotas or other limitations on the importation of commodities in addition to those for which such limitations are already in effect.

The Treasury burden of the programs may be kept under some measure of control if efforts to reduce Government inventories through mandatory acreage restraints should be reasonably successful. Except for a few commodities, however, this is entirely impractical, and such a policy can easily lead to a greater than necessary sacrifice of foreign markets for some products and hence to a serious loss to agriculture as a whole.

Restrictions on our imports of certain farm products, for the purpose of protecting domestic price-fixing programs on such products at prices above world levels, can and do lead to retaliatory measures which hurt other segments of agriculture dependent upon export outlets and a favorable climate for foreign trade.

The great strides made by farmers in increasing the productivity and efficiency of our agriculture during the past decade give ample evidence of the great vitality and flexibility of the agricultural sectors of our economy. Good prices based upon a broadened demand for farm products at home and abroad constituted an important factor in this upsurge of farm productivity and general farm progress. Flexibility in agriculture itself, and in agricultural policy, would appear to be essential in the present situation if farmers are to be in the best position to adapt their farming operations to the changing needs of domestic and foreign markets. This flexibility, especially with respect to foreign markets, can be largely lost if a system of fixed prices is allowed to become permanently imbedded in our farm policy as it relates to possible export markets.

If to a scheme of fixed prices in agriculture are added the inevitable implementing devices of production quotas, import controls, and export subsidies, the ability of agriculture to play a continuing dynamic role in expanding international trade will be largely lost. This would be a serious loss, not only to agriculture, but to our entire economy and to the productivity of the free world. Furthermore, the repercussions from the standpoint of the trading policies of our friends and allies of the free world would be to the detriment of all concerned.

Steps Toward Reconciliation of Farm and Trade Policies

The first step toward policy reconciliation in the fields of foreign economic and domestic agricultural policies must of necessity be a delineation by the Congress and the administrative agencies concerned of a consistent pattern of policies and procedures which will permit the achievement of the objectives of both our agricultural and our foreign economic policies. The transition to this new pattern will require time, particularly in view of the existing accumulations (in actual or potential government ownership) of substantial quantities of several farm products for which foreign markets are urgently needed in the not too distant future. The potential international complications which keep arising over import quotas or embargoes, import fees additional to tariff rates, and export subsidies on a small or large scale, undertaken in consequence of domestic agricultural programs, bid fair to reach an unprecedented peak in the fiscal year 1954, as large stocks of farm products are being acquired. The transitional problems are difficult but not insoluble.

During the transitional period it will be necessary to take every precaution to avoid steps which may lead toward an increase in actual or virtual state trading, lest a pattern of such conduct, seemingly forced by the circumstances of the moment, becomes established as permanent policy. Also, if we are to succeed in moving toward a lessened use of such devices as export subsidies and import quotas, it would be desirable to continue the policy and extend the practice of consulting with interested and affected countries, for the purpose of seeing that such actions of this character as may be required by present law be modified to the extent necessary to ensure that we do not provoke a self-defeating chain of offsetting actions by other countries.

The International Wheat Council may constitute a useful body for international consultations on current wheat problems, although this value is limited by the absence of certain nations that are important as importing or exporting countries. The Commission recommends that during the life of the 1953 International Wheat Agreement its operation be kept under critical review, that efforts be made to make the organization contribute its maximum to solving pressing problems, and that its termination in 1956 be given consideration.

In the application of import restrictions on farm products, the level of those restrictions should be set with full regard for the effects on overseas buying power and the possibility that such restrictions may lead to retaliation and may be self-defeating.

It will be necessary to develop procedures which will assure maximum continuing domestic and foreign markets for our farm products, without resort to price-fixing procedures which either stifle trade or permit it to become enmeshed in a system of import-export regulations and manipulations which engender animosities and seriously retard mutually helpful commerce. Ways of achieving desirable farm policy goals can be found without resort to the kind of inflexible price supports or fixed prices which hold the prices of our farm products above the level of world prices. This subject, however, is outside the field of inquiry of this Commission.

The temptation to resort to short-run expedients as easy remedies is great, and, in fact, a number of interim measures must be used. But it is important to agriculture, and to the national interest, that these interim measures be consistent with the long-term objective, and that they hasten rather than hinder the achievement of this goal.

The Commission believes that a dynamic foreign economic policy as it relates to agriculture cannot be built out of a maze of restrictive devices such as inflexible price-support programs which result in fixed prices, open or concealed export subsidies, import quotas at home and abroad, excessive use of tariffs here and abroad, exchange restrictions, and state trading. If we are to have a foreign economic policy which will make its best contribution to the strengthening of our long-term development of foreign markets for farmers, we must move as rapidly as feasible toward the elimination of such devices as a part of, or supplement to, our own agricultural policy.

(Mr. Hickenlooper and Mr. Cooper submit statements regarding the foregoing part of this section on PROBLEMS OF AGRICULTURE.)

(Mr. McDonald, Mr. Millikin, Mr. George, and Mr. Reed dissent from the foregoing part of this section on PROBLEMS OF AGRICULTURE.)

(Statement of Mr. Hickenlooper on that section of the Report relating to PROBLEMS OF AGRICULTURE.)

While I am confident the Commission does not intend to recommend the elimination of government farm price supports, I want to make my position on this point perfectly clear.

Certainly we need to reconcile the conflict which now exists between the present rigid price support programs and our foreign economic objectives. Many farmers have recognized this need for years. In fact this dilemma is one of the main reasons why the Congress provided for variable price supports in the long-range farm price support legislation enacted on a bi-partisan basis in 1948 and 1949.

A sound price support program most surely should take into account the farmers' interest in maintaining large export outlets and in balancing trade at a high level on a basis that is mutually advantageous to the United States and the countries with whom we trade.

(End of Mr. Hickenlooper's statement.)

(Statement of Mr. Cooper on that section of the Report relating to PROBLEMS OF AGRICULTURE.)

It is with regret that I am unable to agree with some of the views expressed by a majority of the members of the Commission with respect to Agriculture.

I have on every occasion possible exerted my best efforts to improve the role of agricultural products in foreign trade. I fully realize the importance of export markets to agriculture; however, I have also supported and voted for our domestic agricultural programs when they were under consideration by the Congress.

I realize that there are instances where our domestic agricultural programs and our foreign trade policy may seem to be in conflict. But it would appear that proper adjustments could be made and that we should not arbitrarily subordinate the role of our domestic agricultural programs to our foreign economic policy.

Our domestic agricultural programs are a reality, and have been, of course, enacted by the Congress and improved as the years have gone by. These programs are a major factor in the stabilization of farm prices and incomes, and are about the only protection which the farmers have from the hazards of economic conditions which are impossible to anticipate and which can mean the difference between financial failure and financial success. It is my belief that our domestic agricultural programs and our foreign trade policy both are very important to our agricultural interests.

In any event, our domestic agricultural programs should not be subordinated to our foreign trade policy without full and careful consideration, with proper emphasis being given to our domestic farm economy and its impact on our over-all national economy.

(End of Mr. Cooper's statement.)

(Dissent of Mr. McDonald from that section of the Report relating to the PROBLEMS OF AGRICULTURE.)

To abandon domestic price-support programs and international commodity agreements without offering an alternative program is not only disastrous to adequate production of foodstuffs for the domestic economy, but it also is abandoning America's leading role in supplying foodstuffs for many other nations throughout the world.

The Commission's Report in this area implies that farm prices should be determined exclusively at the market place and that the welfare of the farmers should be subordinated to reducing the United States Treasury's expenditure in support of an adequate and sound farm program.

We must have a sound and stabilized domestic agricultural program in order to permit the production of foodstuffs for ourselves as well as our friends throughout the world. Burdensome accumulations of surpluses and domestic prices in excess of world prices will not be resolved by abandoning the Federal Government's responsibility to maintain a sound stabilized farm program.

This Report implies that the abandonment of present programs will solve the domestic and international agricultural situation. I believe that a sound and stabilized domestic farm program, based upon the fundamental concept of parity of income of American farmers, will assure a stabilized farm income and adequate food and fibers for ourselves and our allies.

(End of Mr. McDonald's dissent.)

Instability of Raw Materials Prices

Fluctuations in prices have particularly serious effects upon countries whose economies depend predominantly upon production and export of primary products. Extreme fluctuations not only induce distortions in the economic development of these countries; they sometimes shock their economies to an extent that throws great strain upon their social and political fabrics. Moreover, memories of collapses in primary products prices and fears of a recurrence tend to stimulate over rapid industrialization, designed to reduce their dependence upon the sale of primary products.

For these reasons, greater stability of prices is one of the prime desires in the raw materials exporting countries; and of course it is desired too in the industrialized countries which import raw materials and foodstuffs.

Prices inevitably fluctuate with variations in supply and demand; and such variations are affected by changes in the general economy. In particular, the demand for primary products in international trade is affected by business conditions in the industrialized countries which import them. Because of its sheer economic weight, the American economy exercises a particularly great influence on raw materials prices.

Proposals have been made to solve the problem of price instability by inter-governmental commodity agreements, involving export quotas, import quotas, price limits, reserve stocks, price stabilization purchases and sales (buffer stocks), production controls, or some combination of such devices. The Commission does not believe that extensive resort to commodity agreements will solve the problem of price instability; and it believes that such agreements introduce rigidities and restraints that impair the elasticity of economic adjustment and the freedom of individual initiative, which are fundamental to economic progress. Moreover, the types of intergovernmental commodity agreements thus far tried or proposed for the purpose of stabilizing prices involve commitments which could lead, if extensively employed, to very great outlays of U.S. Government funds in certain contingencies, of indeterminable amounts.

The Commission finds the same objections to the proposals for unilateral buffer stock action by the U.S. to stabilize world prices of raw materials and foodstuffs. Experience with the costs of efforts to stabilize certain commodity prices within the U.S. are an indication of the indeterminability of the costs of similar programs on a world-wide scale.

Aside from other causes, price instabilities are caused or aggravated in some instances by actions of governments. These include restrictions upon imports, exports, and foreign exchange; national commodity controls; accumulations and liquidations of commodities by governments; and finally wars.

The Commission believes that the constructive contributions that the U.S. Government can make toward greater stability of world prices are:

(1) measures tending to relax or remove impediments to U.S. foreign trade and to encourage other countries to move in the same direction;

(2) a policy of encouragement of diversification of the economies of the countries now excessively dependent upon a small number of products, and of encouragement of the governments of those countries to pursue policies likely to attract foreign investors to participate in the works of diversification;

(3) avoidance of actions incidental to our own commodity control and stockpile programs that would have avoidably disruptive effects upon world prices;

(4) continued consultation and cooperation with other nations to improve knowledge of world supply and demand for materials and foodstuffs, and to explore possible means of lessening instability; and

(5) policies which will temper the fluctuations of our domestic economy, which exert great influence upon the course of world prices.

(Mr. Whitney submits a statement on Instability of Raw Materials Prices.)

(Mr. McDonald, Mr. Millikin, Mr. George, Mr. Reed and Mr. Simpson dissent from the preceding portion of this section on Instability of Raw Materials Prices.)

(Statement of Mr. Whitney on INSTABILITY OF RAW MATERIALS PRICES.)

While recognizing the dangers inherent in international commodity agreements which provide for fixed prices and production and marketing controls, I believe that agreements which embody flexible price policies and which take into account long-term trends in world demand and supply may provide a means of protecting both producers and consumers from drastic movements in prices.

(End of Mr. Whitney's statement.)

(Dissent of Mr. McDonald from that section of the Report relating to the INSTABILITY OF RAW MATERIALS PRICES.)

The majority discussion of instability in raw material prices greatly oversimplifies the problems that arise from such instability and does not recognize some of the measures which can appropriately be taken to ameliorate these problems. The real reason why countries have supported the international stabilization of raw material prices has been the desire to stabilize the income of the people in their economies who live by the sale of the raw materials. There is in many countries a close relation between economic stability and political stability. Areas like Indonesia and the Malay States, whose economies depend heavily on exports of raw materials to world markets, need greater economic stability if they are to be politically strong members of the free world.

To some extent, the governments of such countries can stabilize incomes by fiscal and monetary policies which result in an accumulation of reserves in times of high prices for use in periods of low prices. Also, to the extent that the United States, in its own interests, is able to avoid economic fluctuations in its own economy, the fluctuations in raw material prices will be reduced. Despite appropriate policies on the part of all governments, however, violent variations in raw material prices might still occur from other causes, as our experience during the war in Korea demonstrated.

The measures suggested in the majority statement for dealing with the problem of instability in raw materials are useful and constructive but may not be adequate. In addition to these measures, the United States Government may find it appropriate to join in carefully negotiated international agreements which have as their purpose the reduction of fluctuations in the incomes of raw material producers. While minimizing restrictions which impede production, such agreements might embody flexible price policies which would take into account long-term trends in world demand and supply while at the same time protecting both producers and consumers from drastic movements in prices in response to temporary and reversible forces.

(End of Mr. McDonald's dissent.)

(Dissent by Mr. George from PROBLEMS OF AGRICULTURE AND RAW MATERIALS.)

Mr. George on "Problems of Agriculture and Raw Materials" agrees that it is not the responsibility of this Commission to reformulate the agricultural policy of the United States. However, since the defects of the present policy are pointed out, defects in any segment of our foreign policy may likewise be pointed out if advantages of the general policy are not also considered in connection therewith. It would seem that this chapter is entirely too restrictive.

Certainly surpluses of farm products or of raw materials which will either deteriorate or be sold at a great financial sacrifice is a defect obvious to any casual observer. Nevertheless, the Commission fails to point out any constructive substitute for the present program and contents itself with criticism of restrictive devices in the existing program. I, therefore, believe this chapter is too restrictive and that it should point the way in the direction of a constructive solution of our farm program. Few, I think, will quarrel with the conclusion that a system of economy is sound if it permits the producers of raw materials, including farm products, to share equitably in the national income. Differences of opinion may arise regarding the distribution of the national income among producers of raw material which may be equitable. Nevertheless, I am unable to subscribe to the general discussions and general observations made in this chapter of the report because it is in my opinion incomplete, inadequate and too restrictive.

(End of dissent of Mr. George.)

UNITED STATES DEPENDENCE ON IMPORTED MATERIALS

Raw Materials.

Since the beginning of World War II, the United States has become a consumer of more raw materials than it produces. This makes us dependent on materials imported from foreign sources and upon the availability, accessibility, and reasonable cost of the materials produced. This dependence will increase with growth in population, with increase in per capita consumption of end products, and with invention of new useful products to open new avenues of demand. The population factor alone will add 25 per cent to our needs if it compounds at the rate of 1.5 per cent annually for 15 years. Forecasts of the further additions through expansion of per capita consumption and through new invention would be guesswork; but those who review the experience of the last half century cannot weigh them lightly.

We depend on foreign sources today for over 30 per cent of our requirements of copper, lead, and zinc; over 50 per cent of our requirements of tungsten, bauxite, and antimony; over 75 per cent of our requirements for chrome and manganese; practically all of our nickel requirements; and all our requirements of tin, natural rubber, and jute.

The Western European countries and Japan depend more heavily than we do on imported materials; and the needs for raw materials in other countries are growing steadily with the progress of industrialization which is in evidence in most parts of the world. In all these countries, growth of population and the demands for ever higher standards of living indicate progressively expanding requirements for raw materials, although at rates of expansion varying with the circumstances of each country. Their dependence on the development of new foreign sources of raw materials will increase with ours, from year to year and from generation to generation.

To some extent, this need for development of foreign sources of materials may be mitigated by discoveries of new sources in the United States. To some extent, it can be lessened by intensified exploitation of high-cost United States sources. The latter course, however, would involve quickened depletion of some of them and high costs of materials to our industry and of the products to our consumers. For many materials, the only practical sources are outside our borders. In most of the countries where these sources are situated, local capital is not adequate to finance their development.

The Commission believes that the most effective contribution which the United States Government can make to the development of the foreign sources of raw materials in which we and the free nations generally are deficient, is to follow policies favorable toward private investment abroad (as recommended earlier in this Report), and to advocate among nations adherence to principles and practices hospitable to foreign investors and conducive to thrift and investment by their own nationals. One principle

in particular must be stressed: investors in the development of sources of needed materials must be assured against frustration of their ventures by unpredictable or capricious levies on exports or production by the countries of origin. Also our tariff policy toward the needed materials should be such as to offer them reasonably easy access to the U.S. market.

Intensified development of foreign sources of deficit materials is not only a compelling necessity for the United States and free nations generally; it also is a promising means of enlarging wealth and productivity in the countries where the development takes place, and of improving their opportunities of employment, standards of living, and capacities to buy from abroad.

Security Considerations.

The purely economic considerations, however, must be reconciled with considerations of military preparedness, where the two are not in harmony. A prime military consideration in the selection of foreign sources of materials is availability of the materials for United States and allied use under conditions of war. The preference among sources is governed by the degree of friendliness of the nations involved, their exposure to enemy action, and the length and safety of the transportation routes. In the case of critical materials which are extremely scarce, or whose sources in event of war would be in jeopardy or at the other end of a long or dangerous ocean route, assured wartime availability depends upon stockpiling.

The argument is often made that military considerations should dictate a preference for higher cost domestic sources of materials that may be needed in time of war, and that the maintenance of these lines of production here should be assured by effective tariffs. In some cases, such protection may enlarge our available supplies by expanding our production base, whereas in others it may exhaust the supplies that remain. Acceptance of this principle could lead to extreme distortions of the costs to our industry and consumers, with detriment to the international competitive situation of industry and the living costs of consumers incommensurate with the military considerations involved. It could lead also to burdens upon the entire American people incommensurate with the benefits to small numbers of them. It could bring about uneconomical substitutions of other things less adapted to the same use for the things whose costs it would inflate. The Commission recommends that tariffs or other import restrictions on raw materials should be determined on economic grounds. Upon a finding by the Executive that it is necessary on solely military grounds to assure a strictly domestic source of supply, the Commission recommends that the purpose should be accomplished by other means, the cost of which should be borne in the defense budget.

(Mr. Fleming, Mr. Hickenlooper, and Mr. Bush and Mr. Vorys submit statements on this section of the Report on UNITED STATES DEPENDENCE ON IMPORTED MATERIALS.)

(Mr. Millikin comments on this section in his letter to Mr. Randall which appears at the end of the Report.)

(Mr. Reed and Mr. Simpson [illegible] of the Report on UNITED STATES DEPENDENCE ON IMPORTED MATERIALS.)

(Statement by Mr. Bush and Mr. Vorys on
UNITED STATES DEPENDENCE ON IMPORTED MATERIALS

We believe the Commission should make definite recommendations on the security considerations involved in defense production facilities as well as in the supply of raw materials.

Our productive power is our mightiest weapon in war. Defense plants and workers cannot be stockpiled.

Industries vital to our defense should be maintained at reserve strength levels. Tariff protection may be necessary. Other steps, such as placement of defense orders, may also be needed. There may be cases where such measures would be more effective for the industry concerned, and better for our economy, than import restrictions.

(End of statement of Mr. Bush and Mr. Vorys.)

(Statement by Mr. Fleming on
UNITED STATES DEPENDENCE ON IMPORTED MATERIALS.)

I agree with Messrs. Bush and Vorys but would like to add:
(1) Determination of justification for special assistance to production facilities on grounds of defense necessity involves a high degree of judgment and discretion and is subject to pressures from those whose interests are directly concerned. For this reason, I believe that such determinations should be made at a very high level in the Administration.
(2) When assistance is determined to be justified, I believe direct means, such as placement of defense orders or contracts for stand-by availability, ordinarily would be preferable to special tariff protection, (a) because they would not disturb other aspects of the economy, and (b) because the cost thus would be borne in the defense budget.

(End of Mr. Fleming's statement.)

(Statement by Mr. Hickenlooper on that section of the Report relating to UNITED STATES DEPENDENCE ON IMPORTED MATERIALS.)

I must disassociate myself from the above recommendation for the reason that I have been unable to satisfy myself as to its implications and it might lend itself to a variety of interpretations with which I could not agree. I think we should approach with great caution any policy which might result in the substantial disruption of established segments of our economy affecting both labor and industry.

(End of Mr. Hickenlooper's statement.)

TARIFFS AND TRADE POLICY

In our consideration of the broad subject of tariffs and trade policies in relation to international trade, our starting point of course must be our present tariff structure. The world, including the United States, has had no experience for any considerable period of time with our present tariffs under conditions which might be termed relatively normal. The Trade Agreements Act was enacted while we were in the middle of a depression. Many bilateral trade agreements, involving many reductions in our duties, were made during the first five years the Act was in effect, but there had been limited opportunity to observe their effect before our trade, already distorted, was further disrupted by the outbreak of war. Since the termination of World War II the patterns of both our exports and our imports have been abnormal. There was an unusually large demand for our exports both for consumption and for rebuilding a war-torn world, and an interruption in the growth of our imports, arising out of the same causes. The Korean War resulted in a further distortion. Resulting imbalances were financed largely through our foreign loan and grant programs. During this period we continued to make further agreements involving still greater reductions in our tariffs.

Now, we find ourselves facing demands for further opening of our markets at a time when our commercial exports are in approximate balance with the highest level of imports ever reached, while the world as a whole has considerably rebuilt its holdings of gold and dollar reserves.

The subjects of tariff rates, tariff policy, and customs administration have had perhaps more public attention than any which the Commission has had to consider. Oral and written submissions to us in this field exceeded in aggregate volume all those relating to all other fields that we were directed to consider. No other single field produced such directly divergent statements of alleged fact, so many shades of opinion, or such diversity of recommendation.

Within the limits which the Commission has set for this Report, no detailed discussion of such submissions is possible. Nor are we charged, as many people seem to believe, to recommend actions with respect to particular tariff rates applicable to the products of a single unit or industry.

We are fully aware of the arguments for free trade. It is sufficient to say that, in our opinion, free trade is not possible under the conditions facing the United States today. Even in moving toward greater freedom of trade we must consider all of the rigidities, both here and elsewhere, which negate some of the premises upon which the arguments for free trade rest. We must take into account that while the United States employs impediments to trade, primarily through tariffs and in only limited fields through quotas, other countries also employ these devices. Beyond this,

they employ the quota procedure far beyond our use, and against other countries as well as against us, and also employ exchange controls and many other devices not used here.

The record clearly indicates that, from a psychological and economic point of view, United States policies in fields connected with the tariff have come to be regarded as of key importance by both the American and the foreign public. We believe this is an overemphasis, for it must not be assumed that any measures which the United States might take in the fields of customs administration and tariff policy, taken by themselves, could provide the full answer to the problem of imbalance described earlier in this Report.

Any adequate program requires appropriate policies on a broad front, in foreign countries as well as here, including but not limited to policies with respect to convertibility and investment. Nor should any assumptions be made as to the key position of United States tariffs and customs procedures, relative to the many impediments which exist in the world to the international movement of goods and to the most effective application of capital and labor. It is clear, on the evidence examined by this Commission, that although many United States tariffs are high and many of our customs procedures are slow and cumbersome, many other United States tariffs are low and more than half our imports enter free of duty.

We fully recognize the dangers of using averages; yet it seems clear by any test that can be devised that the United States is no longer among the higher tariff countries of the world. Taken by and large, our trade restrictions are certainly no more of a cause of payment imbalances than the rigidities maintained by other nations. Restrictions on import and export trade, in turn, are probably no more important than, and in a measure are bound up with, the rigidities maintained inside foreign economies through cartel restrictions, the immobility of labor, and ingrained resistance to technological change; and the rigidities maintained inside the American economy through farm price-support programs, minimum wage legislation, resale price maintenance laws, and the like.

The fact is that we have moved far from a world in which complete international specialization of labor is possible. Some of the rigidities mentioned above are here to stay. Other rigidities, such as those necessary for the defense of the free world, cannot be eliminated as long as the threat of Communist agression continues. This means that completely free trade is not feasible.

Yet the nations of the free world would be stronger and more cohesive if many of the existing barriers to the exchange of their goods were reduced, if unnecessary uncertainties and delays created by such barriers were eliminated, and if adequate international arrangements for discussing and finding solutions to their common trade problems were developed and maintained. The measures described below are aimed at contributing to these broad objectives.

The Buy American Act and legislative provisions of other acts containing the Buy American principle should be amended to give authority to the President to exempt from the provisions of such legislation the bidders from other nations that treat our bidders on an equal basis with their own nationals. Pending such amendment, the President by Executive Order should direct procurement agencies in the public interest to consider foreign bids which satisfy all other considerations on substantially the same price basis as domestic bids.

The Buy American Act was enacted in 1933 as an antidepression measure. It requires Government procurement agencies in effect to give a preference to domestic suppliers, except where such suppliers are quoting prices substantially higher than those quoted from foreign sources. It embodies a philosophy and a practice which exists in many industrial nations of the free world and which is costly to them all. Today our Government procurement alone is of an order some 40 times its dollar volume in 1933. We are fully aware of sentiment everywhere that governments should buy from those who pay their expenses. While we do not believe that foreign producers have any inherent right to supply our Government, we believe that in the total national interest the United States could well lead the way toward the elimination of such preferences on a reciprocal basis.

Congress should direct the President to have the Tariff Commission undertake a study of the tariff schedules immediately, with the stated purpose of framing proposals for the simplification of commodity definitions and rate structures; this study should be completed within a definite time period and the Tariff Commission should be provided during this period with an appropriately enlarged staff. Congress should empower the President, on the basis of such recommendations, to proclaim such changes in commodity definitions and changes in rates as he determines to be appropriate, provided that such changes do not materially alter the total of duties collected pursuant to any group of rates affected by such simplifying changes when calculated on imports in a specified base period.

The problem of tariff classification is complicated at best. However, the many distinctions contained in the Tariff Act of 1930 and the additional distinctions introduced as a result of negotiation under the trade agreements program have created a greatly complicated structure of classification. This has led to disputes and delays, the latter being due in substantial part to the extensive appeals system available to importers who wish to protest the findings of customs officials. The complexity itself leads to temptation to evade. The proposals to be developed by the Tariff Commission should be so framed that the proposed new rates, when applied to imports for a stated base period, would yield approximately the same total revenue. Moreover, the proposals should be developed in accordance with specific standards laid down by the Congress defining the objectives of simplification, such as reducing the number of rates applicable to a given industry or schedule; reducing the spread between the highest and lowest rates applicable to the products of an industry or group of industries producing products for the same or similar purposes; and eliminating

classifications which have given rise to absurdities, inconsistencies, and needless complications.

The Department of the Treasury should formulate proposals designed to simplify the problem of classifying articles not enumerated in our tariff schedules. To that end, consideration should be given to eliminating the multiple and conflicting standards which now apply in the classification of such articles, such as "similitude" and "component of chief value", and developing a single standard of classifications for the widest practicable application.

Even after customs classifications have been reviewed by the Tariff Commission, many articles of import in our highly diversified trade will not be specifically enumerated. The continuous development of new products necessarily creates new problems of classification. At present various standards are used to determine the classification of unenumerated articles which may produce conflicting results. An unenumerated article may be classified on the basis of its similarity with some other imported article, or on the basis of the component of chief value or again on the basis of chief use. This adds to the difficulties of customs procedures and is a fruitful source of litigation.

The Senate should promptly consider HR 6584 now before it, which would amend and improve the customs valuation provisions of our law by eliminating so-called "foreign value" as a basis of valuation and by other simplifying changes. In addition, the Department of the Treasury should be directed to make a study and report to the Congress on the feasibility and effect of making greater use of the actual invoice price of imported goods for valuation purposes in transactions between a buyer and a seller who are independent of each other. In that connection it should also consider and report upon the feasibility of making more efficient use of the "anti-dumping" law.

The problems of fixing a value on imported goods for the purpose of levying ad valorem or compound duties are perhaps the largest single source of delay in customs procedure. Moreover, the extensive rights of importers to protest such determinations, once they are made, unavoidably prolong such disputes and delays. The provisions of HR 6584 might mitigate some of those difficulties; but it would be desirable to explore the possibilities of even further simplification of valuation standards by the greater use of actual invoice prices for the purpose. The risks of using such a standard would also have to be explored, such as the risk of the use of fictitiously low sales prices and the risk of reducing through this means the effective level of duties intended by the Congress. Proper consideration should be given to the fact that a substantial fraction of our imports comes from foreign sources owned by American interests. More effective use of anti-dumping duties would tend to eliminate any attempts at evasion.

The Department of the Treasury should be directed to make a continuing study of difficulties and delays in customs administration and to report the results of its studies each year to the Congress, together with any proposals for legislative action.

a. The first of the regular reports herein recommended should indicate those detailed administrative provisions of the tariff laws which should be modified so that adequate discretion can be granted to the Secretary of the Treasury to insure the greatest possible speed and efficiency of administration in the operation of customs.

b. The first report should also set forth progress made through recent administrative action in simplifying customs procedures, including measures taken in accordance with the Customs Simplification Act of 1953.

The present complexities of customs administration are a significant deterrent to imports; more importantly they create irritations which are detrimental to our total foreign relations. Although the United States may be no worse than many other nations in this regard, there is little excuse for the continuance of unnecessary administrative burdens on international trade. The technical problems involved in the streamlining of customs administration can best be identified and overcome by the agency charged with the administration of these laws, once that agency is given a mandate from the Congress to undertake this task.

In connection with the application of anti-dumping duties, the task of determining, in accordance with the provisions of existing law, "that an industry in the United States is being or is likely to be injured ..." by foreign dumping, should be transferred from the Department of the Treasury to the Tariff Commission. The Department of the Treasury should be directed to study and report to the Congress on any statutory amendments which may be needed to permit the continuance of shipments pending investigation of suspected dumping; and at the same time it should report on any measures needed to effect speedier and more efficient operation of anti-dumping provisions in proper cases.

Our anti-dumping legislation provides that, on suspicion that a product is being dumped on this market, the liquidation of entries of such products shall be suspended. It is generally asserted that this suspension has the effect, in practice, of halting imports of the affected product from the country in question, until the suspicion has been confirmed or rejected by investigation. Although anti-dumping duties have seldom been employed by the United States, nevertheless prompt action in such cases is in the national interest.

The President should study appropriate methods to assure that American industry is not injured by embargoes upon or other impediments to exports of raw materials to the United States for use in processing here.

In this connection, he should direct the Department of the Treasury to review the effectiveness of existing countervailing duty provisions of the law, should consider any alternative measures which may be available for achieving this purpose, and if necessary should make appropriate recommendations to the Congress.

From time to time, other nations have imposed, and still impose, impediments to exports of raw materials to the United States, in order to encourage the processing of such materials internally. The problem of obtaining adequate supplies of raw materials on the part of the United States will increase in importance as time passes. Accordingly, this problem merits the most careful consideration and appropriate action if such impediments are continued.

Our policy of nondiscrimination in trade matters, as reflected in our unconditional most-favored-nation policy, should not be changed.

The United States should continue its traditional policy of nondiscrimination in its trade relations with other free nations. Only the unconditional most-favored-nation doctrine is consistent with this policy. If the United States were to give preferential trade treatment to certain countries, such action would itself constitute discrimination and be inconsistent with the position of the United States in the free world. Our present unconditional policy has been in effect for 30 years. Its reversal now would probably defeat our efforts to induce other countries to eliminate preferential arrangements that discriminate against us.

The organizational provisions of the General Agreement on Tariffs and Trade should be renegotiated with a view to confining the functions of the contracting parties to sponsoring multilateral trade negotiations, recommending broad trade policies for individual consideration by the legislative or other appropriate authorities in the various countries, and providing a forum for consultation regarding trade disputes. The organizational provisions renegotiated in accordance with this recommendation should be submitted to the Congress for approval either as a treaty or by joint resolution.

The General Agreement on Tariffs and Trade has never been reviewed and approved by the Congress. Indeed, questions concerning the constitutionality of some aspects of the United States participation in the General Agreement have been raised in the Congress. This has created uncertainty about the future role of the United States in the General Agreement. It would be appropriate if the organizational provisions of the Agreement were submitted to Congress, after renegotiation in accordance with the principles stated above.

The President's power to negotiate trade agreements under the Trade Agreements Act and to place them in force should be extended for not less than three years, with appropriate safeguards. Such a period should give time for considering the effects of the recommendations for action here and

of the actions taken abroad to restore multilateral trade and payments as in the past, and for Congress to give adequate consideration to the renegotiated organizational provisions of the General Agreement on Tariffs and Trade, as recommended above. Consideration should then be given to extending the Trade Agreements Act for a longer period than three years, with such safeguards as experience then indicates to be necessary.

In the past, the repeated short-term renewals of the President's powers to negotiate trade agreements have created an aura of instability in our trade policy which it would be desirable to avoid for the future. However, any permanent or long-term delegation of tariff-changing power by the Congress, while including limitations on maximum permissible changes, must also be accompanied by adequate standards, more specific than those which have accompanied the earlier delegations of such power for limited periods of time.

In the course of tariff negotiations, great care should be exercised in the determination of the principal supplier or suppliers of particular articles subject to negotiation as well as in identifying the lowest cost source of prospective foreign competition. Also, there should be closer consultation with domestic producers on technical problems without permitting them to participate in actual negotiations. Multilateral techniques of negotiation, such as those developed under the General Agreement on Tariffs and Trade, provide a better means of dealing with these questions than bilateral negotiations, and should be retained.

The President should be delegated broad powers under the Trade Agreements Act to enter into mulitateral negotiations looking toward a reduction of tariff rates on a gradual basis. The President's power to increase rates should not thereby be curtailed. The President should be authorized for the three years following the renewal of the Act to reduce tariff rates to the following extent:

a. Pursuant to multilateral trade agreement negotiation, the President should be authorized to reduce existing tariff rates by not more than five per cent of present rates in each of the first three years of the new Act;

b. On the basis of information provided by the Tariff Commission, the President should be authorized, with or without receiving reciprocal concessions, to reduce tariffs by not more than one-half of rates in effect January 1, 1945 on products which are not being imported or which are being imported in negligible volume. Any such reductions should be made in steps spread over a period of three years.

c. The President should be authorized to reduce to 50 per cent ad valorem, or its equivalent, any rate in excess of that ceiling, except that any such reduction should take place by stages over a period of three years.

d. Reductions in rates pursuant to the foregoing should not be cumulative as to any commodity.

e. In the exercise of these powers, the existing pre-negotiation procedures, including public notice and hearings before the Tariff Commission and before an interdepartmental committee, should be followed and peril point determinations should be made. Moreover, the provisions of the escape clause should apply to tariff reductions made under this authority.

In extending the tariff-negotiating authority of the President, the Congress should direct that in future negotiations subdivisions of classification categories which would give rise to new confusion or controversy over classification be avoided to the maximum extent possible.

The President should make an annual report to the Congress on the operation of the trade agreements program including information on new negotiations undertaken, changes made in tariff rates, and reciprocal concessions obtained.

The delegation of power accorded the President, while broad in nature, nevertheless should be made in recognition of the fact that the trade agreements program has not been fully tested. Most of the period of its operation has been characterized by abnormal economic conditions of one kind or another. This fact argues for caution in applying the principles of the program extensively in the immediate future.

The escape clause and the peril point provisions should be retained. However, the statute should be amended expressly to spell out the fact that the President is authorized to disregard findings under these provisions whenever he finds that the national interest of the United States requires it.

To date, the escape clause has been applied by the President with respect to only three products, despite the fact that there have been over 50 applications for the use of that clause in the past five years. There is no similar body of experience as yet with respect to the application of the peril point provisions. The application of these provisions on the basis of the national interest should provide adequate reassurance as to the stability of United States trade policy.

The same standards of sanitation and health should be applied to imported as to domestic goods. Plant and animal quarantine provisions should be maintained. The desirability of consulting with other countries, with a view to creating greater understanding abroad of the standards being enforced by the United States, should be studied.

The measures applied to imports by the Food and Drug Administration and the Department of Agriculture to enforce our sanitary and health requirements and to prevent the spread of animal and plant disease are impediments

to trade. Nevertheless, they must be maintained in our national interest. These restrictions would lead to less complaint, however, if they were more widely understood and if similar standards were more widely applied by other countries.

The recommendations we have made for tariff adjustment imply, we think clearly, gradual and carefully considered step-by-step action. Such an approach should make it possible for any companies, communities and workers that might be affected to make their own adjustments in the same way that similar adjustments have been made in the past.

It must be borne in mind that in considering the matter of "international trade and its enlargement" the Commission was required to consider such enlargement as would be "consistent with a sound domestic economy". This qualification is as important as the positive part of the directive given us. Even abroad it is recognized that, national security having been assured, the most important single element essential to the expansion of world trade and strengthening of the free world is the maintenance of a sound and strong economy in the United States.

One of the essential strengths of our entire economy is the vitality and diversification of our industry. While no clear-cut lines of demarcation can be drawn without overlapping, the submissions made to the Commission indicate that our industry falls into three broad classes.

The first class is that type of industry, generally referred to, with more or less inaccuracy, as the mass production industries in which for various reasons, methods or processes, size of markets, machinery, or other causes, unit labor costs are generally low here as compared with other countries and little or no problem exists with respect to imports.

The second class is one in which machinery and production facilities, generally speaking, are identical or at least similar here and abroad. In some of these the same number of man-hours goes into a unit of goods here and abroad; in others the use of labor is less efficient abroad than here and there may be other offsetting cost factors. Whether or not imports may be seriously damaging is dependent on factors which vary industry by industry, but in at least some of these the labor factor is the controlling element.

The third class is the so-called handicraft type where machinery is a minor element. Here quite obviously, with labor the major cost, imports can be not merely serious but destructive to the domestic industry without a tariff.

Yet all three classes or types of industry are a necessary part of our total economy, and in all of their variations they must pay wages generally in harmony with the general level of wages throughout the country. We would not have it otherwise; and we do not wish it to happen that the wage level in the third class and in some of the second class should be determined or seriously affected by the wage levels abroad in competitive industries.

What we have said does not single out an industry or industries for specific recommendation, but should make clear that a policy of gradualness and close consideration of the effects of action already taken is in the national interest at this time.

It should further be quite clear that we do not believe that unilateral action by the United States will solve the world's trade problems. Beyond that, however, we do not intend by this portion of our Report to indicate that we believe the foregoing actions should be taken regardless of actions by other countries. On the contrary, it is our belief that actions by the United States such as we have outlined should so far as possible be taken contemporaneously with and related to action abroad toward conditions that will permit trade to move and to be balanced multilaterally as in the past. During the three-year period above specified we should give consideration as to how far other countries have gone with corrective actions which they alone can take.

(Mr. McDonald submits a statement on TARIFFS AND TRADE POLICY.)

(Mr. Millikin comments on this section in his letter to Mr. Randall which appears at the end of the Report.)

(Mr. Reed and Mr. Simpson dissent from the Commission's position on the tariff.)

Mr. McDonald's Statement on TARIFFS AND TRADE POLICY

I agree with the recommendations of the Commission as to simplification of the United States tariff, simplification of customs procedures, the streamlining of valuation for duty purposes, and liberalizing recommendations regarding other administrative aspects of the tariff. I do not agree, however, with the recommendation that the Buy American Act merely be amended so as to give the President authority to exempt bidders from countries that treat our bidders on an equal basis with their own nationals. In my opinion, the Buy American Act and the legislative provisions of other Acts containing the Buy American principle should be repealed.

I agree with the expressed intention of the Report to expand foreign trade and, for this reason, I firmly believe that the United States should reduce its tariff barriers. However, the powers to reduce tariffs that are recommended in the Report cannot be expected to achieve this objective as long as the peril point provision and the escape clause remain as the sole remedy for injury.

I doubt that any President will be disposed, except in cases of extreme emergency, to lower tariffs below the points specified by the Tariff Commission under the peril point and escape clause provisions unless some machinery is at hand which will make it possible for him to do so without causing injury to individual workers, business establishments, and vulnerable communities. It is essential, therefore, that adequate provision be made in the law for sharing the costs of such adjustments as may be necessitated by increased imports. I have made suggestions along these lines in my statement relating to "Adjustment in Cases of Injury Caused by Increased Imports."

I believe that the statement that our foreign trade is now in approximate balance is misleading if taken out of the context of the Report as a whole. As pointed out elsewhere in the Report, our current international accounts are in a precarious balance only.

Furthermore, this section of the Report tends to convey the impression that the trade barriers of the United States are much less restrictive than are the barriers of all other countries and that the responsibility for restoring international economic balance rests more upon other countries than upon the United States. Of course, other countries must lower their trade barriers, but the leadership for such action, of necessity, rests with the United States.

(End of Mr. McDonald's statement.)

ADJUSTMENT TO INCREASED IMPORTS

Mr. McDonald prepared for the Commission a proposal for Government assistance to communities, employers, and workers to facilitate adjustment in case injury should be caused by tariff changes. The proposal was admirably prepared, and the Commission studied it with deep interest.

The Commission, however, decided that it could not recommend the proposal to the Government for the reason that no matter how great our sympathy may be for the problems of a displaced worker, or those of a business with a shrinking volume, this is but one phase of a much broader problem.

The President has already indicated to the Congress his concern for the problems of human welfare, of which the effect of tariff changes is but one aspect.

In a free economy, some displacement of workers and some injury to institutions is unavoidable. It may come about through technological change, alterations in consumer preferences, exhaustion of a mineral resource, new inventions, new taxes, or many other causes. Since it has never been seriously proposed that the burden of all such injury arising in a free economy should be assumed by the Government, the Commission felt that it was not appropriate to propose such a plan in the tariff area only.

The Commission feels, however, that Mr. McDonald's proposal should be presented to the public, and it is submitted herewith.

(Of the sixteen members of the Commission who were unable to accept Mr. McDonald's statement, the following have submitted special comments: Mr. Parker, Mr. Tapp, Mr. Whitney, Mr. Williams, Mr. Bush and Mr. Vorys.)

(Mr. Millikin comments on this section in his letter to Mr. Randall which appears at the end of the Report.)

Statement of Mr. McDonald on ADJUSTMENT IN CASES OF INJURY CAUSED BY INCREASED IMPORTS

Neither the present law nor this Report makes provision for workers, companies, and communities that might face injury if the President decides it to be in the national interest to lower tariffs beyond the points specified by the Tariff Commission under the peril point and escape clause provisions.

It is not likely that such injury would be widespread, but the initial effects upon those concerned might be serious. Some jobs might be lost, some companies might lose markets, and some communities might suffer increased unemployment. As I stated in my comments on the "Tariffs and Trade Policy" section of this Report, it is essential that adequate provision be made in the law for facilitating adjustments to increased imports.

I am satisfied that the necessary adjustments can be made. But I cannot agree with the majority view that the Government has no responsibility to assist those injured in making them. Unemployment of any magnitude is of concern to the Government. Unemployment caused by Government action, as in the lowering of tariffs, should be of particular concern to the Government.

The scope of this adjustment problem is indicated by estimates of potential worker displacement made for this Commission. Given a hypothetical reduction of 50 per cent in our present tariffs, and the increased imports which would result from such reduction, not over 100,000 workers might be threatened, directly or indirectly, with loss of their jobs. Product diversification and other adjustments on the part of the companies concerned can be depended upon to reduce this figure. But while the total number involved should prove relatively small, the impact on the workers who are affected might be severe.

During periods of rapid industrial expansion, the problem of adjustment to increased imports should be relatively easy. On the other hand, during periods of easing industrial activity, it may not be possible for the growth industries to absorb all of the workers from those industries which are in competition with imports. Owing to the comparatively weak competitive position of the industries which will suffer from imports, they are likely to suffer most in time of general business retrenchment. It is during such periods that it is more important for the Government to provide assistance to industries which find it necessary to make adjustments to any loss of markets resulting from increased imports.

Study of the extensive experience of all segments of our economy in adjusting to dislocation from causes other than import competition leads to the conclusion that adjustments of a magnitude far greater than this have been, and can be, made. Indeed, on the basis of past experience, the areas of our economy concerned should be stronger after this adjustment than before.

It is proposed that a policy be adopted by the Congress to assist and promote necessary adjustments by companies, workers, and communities whenever injury results from increases in imports traceable to tariff changes.

Eligibility for Adjustment Assistance

When the President finds it in the national interest to lower a tariff below the peril point, or to maintain a tariff concession despite a finding of injury or threat of injury by the Tariff Commission in an escape clause action, the affected companies, their employees, and the communities in which they are located should become eligible for assistance under an Adjustment Assistance Program. The existence of such a Program would provide the President with an alternative to tariff restoration, and it would provide those injured with assistance in making needed adjustments.

Proposed Adjustment Assistance Program

The most satisfactory adjustment for workers, companies, and communities affected would be for the managements in the industries concerned to diversify their output into products less vulnerable to import competition. The next most satisfactory solution would be for the communities to broaden their economic base and provide alternative jobs for their workers. What companies and communities need in order to diversify is technical assistance to help determine lines of production which they might economically develop, and financial assistance to help carry the cost of such development. This might be provided in the following ways:

(a) Companies and communities affected should become eligible for a technical assistance program.

This would permit payment from Federal funds of part of the cost of service of consulting professional engineers, economic developers, market researchers, or other technicians whose services might prove helpful. This responsibility might be assigned to the Department of Commerce.

(b) Companies and communities found eligible should have access to financing assistance necessary to their adjustment programs.

Expansion or diversification of existing business, or the development of new business, may require additional financing. A large number of communities and several states have established privately financed Industrial Development Corporations, which could be helpful in meeting this need.

Experience indicates that a marginal amount of financing may also be required that is not available from these sources. In such cases, the Small Business Administration, acting within its present authority and existing appropriations, should make its facilities available. If it should be found necessary, the SBA Act might be amended to permit larger loans if they are required to further this adjustment program. Any such public

financing should be supplementary to, and preferably in participation with, private financial institutions.

(c) Companies found eligible should have the privilege of accelerated tax amortization on new plant and equipment for the purpose of introducing new products or expanding production in lines other than those affected by tariff changes.

Such amortization should also be offered to any other firms expanding production or establishing new facilities in communities (or their labor market areas) which are found to be eligible for this program. The Internal Revenue Code would have to be amended for this purpose.

(d) Companies and communities found eligible should receive special consideration in the letting of Government contracts.

Community Adjustment Assistance from Export Industries

Large sectors of expanding American industry have a substantial interest in promoting export trade and, consequently, in lowering barriers to increased imports. Most of these manufacturers are in fast-growing industries and have long-term plans for expanding their plant and equipment. If a number of such firms would undertake to place a relatively small proportion of their branch plant expansion in areas with present or prospective labor surpluses resulting from import competition, selecting from their expansion plans such operations as could economically be located in these areas and still meet their own production and marketing requirements, the problem of unemployment from import competition would be largely solved.

There would still remain problems of transferability of skills of workers, adaptability of older workers to new industries, loss of accumulated benefits resulting from long seniority, etc.; but experience in many communities indicates that these could be largely solved, given an adequate supply of alternative employment in growth industries. Export industries will presumably grow and prosper with the increased exports that lowered tariffs and higher imports would permit. There is a certain equity in their sharing this growth with the communities and workers whose adjustments would make it possible. Carrying out a program of this kind under private auspices might be done through an Industrial Development Corporation, fashioned after the community and State Industrial Development Corporations but operating on a national scale. The more that private industry can utilize the skills of these displaced workers through this or other means, the smaller the task left to the Government.

Adjustment Assistance for Workers

Employees of companies found eligible for this program should also be eligible for adjustment assistance, in case they are not able to locate alternative employment promptly. This might take the form of a special unemployment compensation program administered through our present federal-state machinery but financed by Federal funds.

Provision should be made in case situations arise where neither companies nor communities succeed in diversifying to new lines of production and the workers face a major vocational adjustment problem. Present unemployment insurance benefits are inadequate to meet this need. Since this displacement would be the result of our national trade policy, Federal responsibility is clear. States where the impact happens to fall heaviest should not be penalized in a program designed to benefit the national interest.

These unemployment benefits should extend for a longer period than is presently provided, but be limited in duration. Maximum benefits should exceed those now available. Benefits should cease once suitable work is found. If a worker takes a new job at substantially lower pay than his old job, he should be entitled to a supplemental benefit for a limited period to make up part of the difference.

In addition to special unemployment insurance, a fully adequate adjustment program for workers would involve (a) an intensive counseling and placement program to help workers locate alternative jobs as nearly as possible equal to their previous employment; (b) special training allowances, similar to the current veterans' programs, to finance employers' costs in connection with in-plant training programs or to cover approved courses of training in approved institutions; (c) special moving allowances, where a finding is made that a job is available elsewhere and payment of moving expenses up to a fixed amount in an individual case can aid in relocation; (d) for any older workers who prove unemployable, provision should be made for eligibility before 65 for retirement benefits under the Old Age and Survivors Insurance Program, without prejudice to their rights at regular retirement age.

Research on the Impact of Lower Tariffs and Increased Imports

To my knowledge, more research was undertaken on the extent of the impact of import increases on American workers, companies, and communities as a result of this Commission's inquiry than has been done at any other time. This is surprising in view of the tremendous interest in the subject and the wide divergence of views on what this impact would amount to.

Time available to us did not permit the collection and review of all the information on the impact of potential imports which we should have liked to have had for the Commission's consideration. More work needs to be done in this area to assist the Congress in the formulation of future tariff and trade policy, and to assist the executive branch in administering it.

It is, therefore, recommended that:

(a) Industry-by-industry estimates of potential displacement resulting from tariff reductions be made by a special interdepartmental committee established for this purpose.

(b) The probable effect of such displacement on the individual industries and companies involved be analyzed by the Department of Commerce.

(c) The probable effect of such displacement on workers involved, by industries and by labor market areas, be analyzed by the Department of Labor.

(d) Adequate funds for these studies be made available by the Congress.

(End of Mr. McDonald's statement.)

(Statement by Mr. Parker, Mr. Bush and Mr. Vorys on
ADJUSTMENT IN CASES OF INJURY CAUSED BY INCREASED IMPORTS.)

We concur in the Commission's rejection of the proposed adjustment assistance programs.

Various forms of government aid are available now to all industries and their workers threatened with injury from technological advancement, style changes, or other causes.

These aids include, for workers, unemployment insurance, employment information, placement and training from the Department of Labor; for industry, technical advice from the Department of Commerce, preference in Federal procurement and loans from the Small Business Administration.

We do not believe the President will use his discretion to override peril point and escape clause findings in a way to cause injury that cannot be repaired by aids and methods now available.

On the other hand, the creation of a new Federal bureau to grant Federal relief for tariff injury would have serious consequences that are easy to foresee. A tariff rate would become a vested right. Accurate determination of damage to this right would be extremely difficult, and would be certain to involve political pressures and favoritism.

If "trade, not aid" is to mean that in order to stimulate trade we substitute domestic aid for foreign aid, we will have instituted for one that is rapidly diminishing an aid program that will expand. Our foreign policy should be aimed at eliminating the necessity for aid programs, at home and abroad.

(End of statement by Mr. Parker,
Mr. Bush and Mr. Vorys.)

(Statement by Mr. Whitney on ADJUSTMENT IN CASES OF INJURY CAUSED BY INCREASED IMPORTS.)

The recommendations made for tariff reduction imply a gradual and carefully considered step-by-step adjustment. This gradual approach should make it possible for those few companies, communities, and workers that might be affected to make their own adjustments in the same ways that similar adjustments have been made in the past. The Commission's recommendations contemplate no dislocation of American industry and labor which might result in extensive hardship. In fact, the continual adjustments required for a balanced growth of the United States trade are at least equal to those which would inevitably occur if our exports were to decline as a consequence of a reduction in foreign aid not offset by a rise in imports.

While the approach suggested by this report and the safeguards already in our tariff legislation will minimize the magnitude of the adjustment for the American economy, the policy recommendations of this report look forward to an expansion of United States imports of industrial commodities, as well as raw materials, over the next few years. The greater confidence which foreign suppliers will have in the continuation of a stable United States trade policy should also encourage them to expand their sales to the United States. While the burden of adjustment on United States industry as a whole should be small, the initial effects of the expected increase in imports may prove to be heavy in the case of a few industries.

Some workers may be required to change their present jobs and apply their skills in other jobs and, in a few cases, in other places. These transitions and these dislocations are not unique in our society. They have happened in the past; they happen now, every day. They are part and parcel of a dynamic, growing economy. In a full-employment economy, such shifts symbolize the movement from uneconomic to economic activity.

Nevertheless, the impact of dislocation on the individual worker is of vital importance to him. Our Government already recognizes a responsibility to assist displaced workers. Unemployment compensation and placement and training programs are presently available for this purpose. In addition, the Government has a policy of favoring depressed areas and industries in the letting of government contracts, and the Small Business Administration can make loans for the construction of new industrial facilities required to meet changing conditions of demand. These mechanisms can be used to cushion the movement of workers from one employment to another necessitated by economic change arising from any cause, including increased imports.

Nevertheless, the basic avenue for minimizing dislocations in the demand for labor is the fostering of a dynamic, growing economy - an economy that produces new products and develops new markets and, with them, high levels of productivity, wages, and employment.

While not concurring with the program of labor adjustment outlined in Mr. McDonald's statement, I do recognize the principle of governmental assistance for adjustment to changed economic conditions involving hardship on individual workers. I am opposed to the setting up of special Federal machinery and the creation of special rights and government obligations arising out of possible injury from tariff reductions. Such hardships should be given the same consideration which is offered to United States citizens under plans formulated for dealing with economic adjustments arising from other causes.

(End of Mr. Whitney's statement.)

(Mr. Williams submits the following comment with respect to Mr. McDonald's statement on ADJUSTMENT IN CASES OF INJURY CAUSED BY INCREASED IMPORTS in which Mr. Tapp concurs.)

I could not subscribe, without much further study, to the details of Mr. McDonald's paper statement, but I do sympathize with its general intent. As the Report points out, however, it is part of a much broader problem, which I think deserves serious study by the Administration.

(End of Mr. Williams' statement.)

(Mr. Tapp concurs in Mr. Williams' statement.)

LABOR STANDARDS IN INTERNATIONAL COMPETITION

American labor should not be subjected to unfair competition as part of any program to expand our foreign trade. It must be made clear, however, what constitutes "unfair competition." Manifestly, wage levels cannot be used as the sole guide. Our export industries are among those with the highest wages paid in this country, yet they compete successfully in world markets with lower wage countries, many of which have erected barriers against our exports.

Unit labor costs are not a dependable guide either. Differences in cost provide the foundation of international trade, just as such differences make possible trade within nations. Neither low wages nor low unit labor costs, in and of themselves, constitute "unfair competition".

The clearest case of unfair competition is one in which the workers on a particular commodity are paid wages well below accepted standards in the exporting country. In such cases, our negotiators should simply make clear that no tariff concessions will be granted on products made by workers receiving wages which are substandard in the exporting country.

It is to the advantage of the United States that labor standards throughout the world be raised. Many of the recommendations made in other parts of this report are directed toward improving productivity and raising living standards abroad. To the extent that the United States can be instrumental in raising standards without attempting to coerce other countries, it should do so. It probably would not be wise for the United States, in trade negotiations, to insist upon the raising of labor standards as a "quid pro quo" for the lowering of its trade barriers. The Commission recommends, however, that the United States attempt to raise labor standards through consultative procedures and cooperation in international conferences such as those sponsored by the International Labor Organization.

(Mr. McDonald, and Mr. Bush and Mr. Vorys concur in LABOR STANDARDS IN INTERNATIONAL COMPETITION but submit statements.)

(Mr. Hickenlooper submits a statement on LABOR STANDARDS IN INTERNATIONAL COMPETITION.)

(Mr. Millikin, Mr. Byrd, Mr. Reed and Mr. Simpson dissent from LABOR STANDARDS IN INTERNATIONAL COMPETITION.)

(Statement of Mr. McDonald on that section of the Report relating to LABOR STANDARDS IN INTERNATIONAL COMPETITION.)

The above section accepted by the majority with one major deletion is almost verbatim my recommendation to the Commission. Since the majority sees fit to accept my recommendation in its major part, I approve the foregoing and would like to have seen the following recommendation included:

A principal objective of the suggested International Labor Organization conferences should be the formulation of a Code of Fair Labor Standards, which should include the right of workers to organize into free trade unions and engage in free collective bargaining.

(End of Mr. McDonald's statement.)

(Concurring statement by Mr. Bush and Mr. Vorys on that section of the Report relating to LABOR STANDARDS IN INTERNATIONAL COMPETITION.)

We believe that in negotiating trade agreements, our negotiators should consider not only substandard and depressed wage levels, as described in the Commission's Report and in Mr. McDonald's dissent, but also wage differentials, in order to protect American labor.

Recognizing fully certain controversial aspects of the I.L.O., we believe nevertheless that our general encouragement of high wage levels and collective bargaining in other countries serves the interests of both U. S. workers and their employers.

(End of Statement by Mr. Bush and Mr. Vorys)

(Statement by Mr. Hickenlooper on that section of the Report relating to LABOR STANDARDS IN INTERNATIONAL COMPETITION.)

The recommendation that "our negotiators should simply make clear that no tariff concessions will be granted on products made by workers receiving wages which are sub-standard in the exporting country", while expressing a desirable purpose, nevertheless, might be so difficult to implement as to make it impractical. The criteria to be applied would be controversial, to say the least, and it might involve an attempt on our part to directly interfere with matters which are internal responsibilities of the nations involved. I favor the orderly and economic increase in wage and living standards in other countries, and certainly support the use of our good offices toward this end, but I question the effect of action on our part which might be considered as arbitrary or coercive.

(End of Mr. Hickenlooper's statement.)

RELATED PROBLEMS OF TRADE ADJUSTMENT

While the major solutions to trade and payments imbalance must be found in the fields of foreign investment, currency convertibility and trade policy discussed elsewhere in this Report, important contributions can be made in other fields. Contributions can be made in East-West trade, in shipping, and by tourism, each of which will now be discussed.

East-West Trade

On the problem of what the United States should do toward the growing desire of some Western European nations who are our allies to trade with the countries involved in the Communist bloc, two points seem entirely clear.

First, the present ban on exports by the United States to Communist China and North Korea and our efforts to secure similar action by others must continue until the present threats to our security and that of other free nations in those areas have been removed.

Secondly, our present efforts to prevent exports to the European-Soviet bloc that might contribute to its military strength must continue until genuine peace is assured.

But over and above these two categories of shipments there lies a possible area of trade between the East and the West in Europe in commodities which do not strengthen the forces of military agression, a trade from which net advantage might accrue to the West.

It is this area of commerce that presents the dilemma to the United States.

For many generations there has existed a broad historic pattern of trade in Central Europe that served to support the economies of countries that are now our allies. These nations traditionally drew from the Soviet Union, Poland, East Germany, and the lower Danube valley, foodstuffs, feeds, fuels, and raw materials. They sold in return the products of their factories.

Since the unmasking of the Soviet designs against western civilization, in conjunction with other free nations we have sought to restrict that trade. This weakened the economies of friendly countries and increased their need for our aid.

When we terminate that aid there is grave question as to whether we should attempt longer to prevent such friendly nations from availing themselves of their normal and historic trade pattern.

It may well be, moreover, that more trade in goods for peaceful purposes would in itself serve to penetrate the Iron Curtain and advance the day when normal relationships with the peoples of Eastern Europe may be resumed.

The Commission therefore recommends that, so far as it can be done without jeopardizing military security, and subject to the embargo on Communist China and North Korea, the United States acquiesce in more trade in peaceful goods between Western Europe and the Soviet bloc.

(Mr. Parker, Mr. Whitney, Mr. Bush and Mr. Vorys submit a joint statement on that section of the Report relating to East-West Trade.)

(Mr. George submits a supplemental statement on East-West Trade in which Mr. Byrd concurs.)

(Mr. McDonald, Mr. Millikin, Mr. Hickenlooper, Mr. George, Mr. Reed and Mr. Simpson dissent from that section of the Report relating to East-West Trade.)

(Statement by Mr. Parker, Mr. Whitney, Mr. Bush, and Mr. Vorys on East-West Trade.)

East-West Trade was disrupted by World War II and continued low immediately after the war, because of the war damage and general prostration on both sides. The European Recovery Plan offered economic aid to both sides, but the countries behind the Iron Curtain were forbidden to accept. Later, as the Cold War intensified, measures were taken by both sides to reduce this trade or control it for their own advantage.

The Battle Act of 1951 provides for the termination of our aid to countries that ship strategic goods behind the Iron Curtain. There has been a continual argument as to what trade is strategic. In total war almost everything becomes strategic. In a cold war, we do not wish to strengthen potential enemies. On the other hand, a complete embargo on East-West trade would weaken our side, or create a heavier burden on the United States. The Western nations, cut off from needed imports of food and raw materials, would either lower their living standards to the danger point or require more economic aid from us.

We do not want Western Europe to collapse. We want to reduce our aid and terminate it as soon as possible. Therefore, we concur in the Commission's recommendation as to East-West trade in Europe.

(End of statement by Mr. Parker, Mr. Whitney, Mr. Bush, and Mr. Vorys.)

(Statement by Mr. George on East-West Trade in which Mr. Byrd concurs.)

Sales of Russian gold to Britain and other countries, and the subsequent receipt of such gold by the United States, should be carefully studied by the Department of the Treasury to ascertain whether such sales are indirectly fostering illicit trade.

(End of Mr. George's statement.)

(Mr. Byrd concurs in Mr. George's statement.)

(Dissent of Mr. McDonald from East-West Trade.)

The countries that now comprise the Soviet bloc used to furnish Western Europe with a large part of its import requirements of food, fuel, and other raw materials. Similarly, they were important customers for the manufactured goods of the West. Under these circumstances, it is unwise for the United States to frown upon trade between Western Europe and the countries in the Soviet bloc while, at the same time, failing to take adequate steps to facilitate increased trade between Western Europe and the United States.

The United States must take bold action to stimulate trade with Western Europe. Such action involves a truly effective lowering of import barriers. If the United States, in fact, opens even partially its doors to larger imports from Western Europe, the expansion in that trade will more than make up for the trade that otherwise inevitably will develop between Western Europe and Eastern Europe. In any event, East-West European trade will be considerably smaller than it was before the war.

The distinction that is drawn between goods that might contribute to military strength and other goods is more apparent than real. No one would advocate shipping commodities that obviously can be used in military operations to countries behind the Iron Curtain. Does not every bit of economic improvement behind the Iron Curtain make it just that much easier for the Dictatorship to claim credit for bettering the living conditions of the people as well as to release productive capacity for military purposes? Bread and clothing, in this sense, should also be included in the strategic category. The United States has spent many billions of dollars in foreign aid to rebuild the economies of Western Europe. Central to the philosophy of this aid has been the expectation that Western Europe would so build up its productivity that it would be able to support itself. No one could realistically believe, however, that the countries of Western Europe could, or should, be made self-sufficient. International trade is essential to them and if they do not have access to markets in the dollar area they have little choice but to sell in the markets that they can reach.

The lowering of United States tariff barriers will mean that some adjustments will have to be made in certain segments of the American economy as suggested in my proposals for adjustment. The cost of such an adjustment program would be a small price, indeed, to pay for keeping the countries of Western Europe in the free world orbit and for preventing the unnecessary strengthening of the economies behind the Iron Curtain.

(End of Mr. McDonald's dissent.)

Merchant Marine Policy

The Merchant Marine Shipping Act of 1936 declared it to be necessary "for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States and to provide shipping services on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, ..." The Act provided for construction-differential subsidies to compensate American owners for the excess of the cost of building ships in the United States over the cost of building them abroad, for operating subsidies for ships employed in regular liner routes between the United States and other countries, upon approval of the Maritime Administration, and for exemption from income tax of earnings allocated to special reserves for ship building by companies receiving the operating subsidies.

A large part of the foreign commerce of the United States always has been carried in foreign vessels. During World War II, the services of the merchant ships of our allies were available to us through the operation of an inter-Allied shipping pool. Participation in the carriage of U.S. foreign commerce is an important source of dollar earnings to the foreign maritime nations.

The Commission recommends that the determination of the active merchant fleet requirements of the United States for the purposes of the Merchant Marine Shipping Act of 1936 take account of the availability of foreign vessels and of the importance to the balance of payments of foreign maritime nations of their dollar earnings from shipping services. It recommends that such requirements be determined by a high-level interdepartmental committee within the United States Government, based upon these considerations as well as those enumerated in the Act.

At present, aside from the subsidies under the Merchant Marine Shipping Act, the United States merchant fleet enjoys the benefit of statutory preferences in the shipment of Government-owned and Government-financed cargo, which in effect give it the exclusive carriage of shipments by the defense agencies for American forces and of at least half of the other shipments financed by other United States Government agencies, including those arising from economic aid programs and Export-Import Bank loans. The effect is to compel countries receiving dollar assistance to spend a part of it on freight services which they could render to themselves if permitted to do so. This diverts a part of our economic aid from the purpose intended. The importance of the matter will become more psychological than material as the scale of foreign aid declines.

The Commission recommends that the statutory provisions requiring use of United States vessels for shipments financed by loans or grants of the United States Government and its agencies be repealed and that support sufficient to maintain a merchant marine adequate to our national requirements be provided by direct means, such as those provided for under the Merchant Marine Shipping Act of 1936.

(Mr. Tapp concurs in the section of the Report relating to Merchant Marine Policy but submits a statement in which Mr. Whitney and Mr. Byrd join.)

(Mr. Millikin comments on this section in his letter to Mr. Randall which appears at the end of the Report.)

(Mr. McDonald, Mr. George, Mr. Reed and Mr. Simpson dissent from this section of the Report on Merchant Marine Policy.)

(Concurring Statement by Mr. Tapp on Merchant Marine Policy in which Mr. Whitney and Mr. Byrd join.)

In view of present world conditions I do not believe that the statement should be interpreted to mean that we should place less reliance upon the maintenance of a strong merchant marine than that authorized by the Merchant Marine Shipping Act of 1936.

(End of Mr. Tapp's statement.)

(Mr. Whitney and Mr. Byrd join in this statement.)

Dissent of Mr. McDonald from Merchant Marine Policy.

It is not disputed that the United States should have an adequate merchant marine for the national defense and to develop and maintain its foreign and domestic commerce. It is my conviction that the Report of the Commission dealing with this important matter is not only inadequate to accomplish these objectives, but if its provisions were implemented, our merchant marine would be weakened.

The history of our maritime industry from the first World War to the present confirms the fact that this industry has been inadequate to meet the needs for the development of our foreign trade and for the defense of our Nation during times when we were at war.

In the determination of the requirements for a United States merchant fleet, which no responsible governmental agency has as yet done, we should not put substantial reliance on the merchant ships of our allies. Our experience over the past four or five decades confirms this conclusion. Whatever agency within our Government is charged with the task of determining the size of our merchant marine, it should set as its goal the establishment and maintenance of a merchant marine and a shipbuilding industry that is reasonably self-sufficient. Although the cost required to accomplish this should be kept to a minimum, economy should not be a major consideration, for what might seem economical initially would in the long run prove most costly. To have such a merchant marine requires experienced shipbuilders to construct the ships and to keep them in repair, and seasoned men to man the ships in active service. These cannot be had by relying upon our allies.

At the outbreak of two world wars, the United States has been caught short of sufficient ship bottoms to meet its requirements. Our allies did not, and could not, supply the necessary ships--most of them were bottled up by an effective enemy blockade. If we are drawn into another war, the effectiveness of atomic and hydrogen bombings will place an unprecedented strain upon even the strongest merchant marine. Although we may not be able to build an active reserve merchant marine sufficient to completely service our Nation and allies during war, we should supply at least the immediate initial requirements.

I am opposed to the repeal of "the statutory provisions requiring use of United States vessels for shipments financed by loans and grants of the United States Government and its agencies." In order to maintain an adequate merchant marine of modern ships, it is not out of line to aim for at least 50 per cent of our foreign trade to be carried in them. Practically every other nation in the world favors its merchant marine by direct subsidies, cargo preference, manipulations or prohibitions in foreign currencies, reduced port, consular and documentation charges and by other considerations which discriminate against the United States and other nations whose ships enter their ports. The present Report of this Commission does not even suggest equal treatment for our ships entering these ports.

I am in agreement that the United States Government should continue to support the maintenance of an adequate merchant fleet by subsidies and tax considerations. I believe that all such support should be direct and aboveboard and not indirect or hidden.

In keeping with my general position on this Report, it should be emphasized that the increase in foreign trade that would be brought about by a more liberal trade policy would be a major contribution in maintaining a large, strong merchant marine.

(End of Mr. McDonald's dissent.)

Tourism

It is clearly important to the economic and social development of the free world that the United States Government promote foreign travel. Increased travel abroad by Americans can make a substantial contribution over a period of time to increasing the dollar earnings of foreign countries. While tourist promotion should be primarily a private responsibility, the Commission appreciates that the Government cannot exercise its appropriate functions in respect to foreign travel at no cost whatsoever. There are many actions which the Government might take.

The Commission recommends consideration of means of facilitating the issuance of passports and visas to tourists, and that it work closely with foreign governments through our missions abroad to insure ease of entry and adequacy of accommodation for travelers abroad. The duty-free allowance for tourists which, in effect, now amounts to $500 exercisable once every six months, should be increased to $1000. The President should direct the appropriate departments of the Government to encourage the promotion of tourism.

CURRENCY CONVERTIBILITY

There have been two schools of thought concerning the restoration of currency convertibility. One school regards the restoration of convertibility as mainly a matter of curbing inflation abroad. It regards the war-induced disturbances in production and trade as temporary phenomena which have now been surmounted. By this reasoning, all that remains for the introduction of convertibility is appropriate monetary-fiscal and exchange rate policies.

Another school of thought regards the problem as much more complicated. While agreeing that the curbing of inflation and the fixing of appropriate exchange rates are essential for convertibility, it argues that such measures may not be enough. It lays emphasis upon the structural, longer run nature of many of the war-induced distortions in production and trade, and upon even deeper seated changes already apparent before the war. Without repeating what was said earlier in this Report about the dollar problem, other factors that should be mentioned are the loss of Europe's overseas investments, the disarrangement of the triangular pattern of world trade--as between the United States, Europe, and the non-dollar, non-European areas--and particularly the growing predominance of the United States in the world economy, which has intensified the effects abroad of short-run economic fluctuations here, and the longer run disparities in productivity and real income. Because of these structural developments, this school of thought takes a more cautious attitude toward convertibility.

The Commission adheres to this latter view. It recognizes, however, that there is an important difference between establishing outright convertibility of currencies and taking gradual and prudent steps in that direction; and it recognizes also that the general economic conditions prerequisite to currency convertibility are more nearly in prospect today than at any previous time since the war. The Commission believes that the decisions, the methods, the time table, and the responsibility for introducing currency convertibility should rest on the countries concerned. It recognizes, however, that currency convertibility must be examined in the light of the policies pursued by other countries, particularly the United States; and it believes that the recommendations in the preceding sections of this Report, if carried out, would encourage and assist foreign countries in removing restrictions on trade and payments as rapidly as prudence permits.

In the light of these considerations, the Commission wishes to make some general observations regarding currency convertibility. The Commission believes that convertible currencies constitute an indispensable condition for the attainment of world-wide multilateral trade and the maintenance of balanced trade in a relatively free market. It would deplore a merely formal convertibility maintained through trade restrictions. It believes that the removal of restrictions upon payment and upon trade should go hand in hand. It favors gradual but positive progress toward currency convertibility. It believes that the so-called "commodity convertibility" whereby, for example, non-resident holders of current account sterling might be permitted

increasingly to use their balances to buy dollar goods as the great commodity markets in Britain are reopened--a process already well under way--may have important advantages from the standpoint of effective control as compared with more general convertibility of sterling balances.

The Commission recognizes that, as and when more general convertibility were undertaken, important questions would arise as to the handling of transfers of previously accumulated non-resident balances, movements of capital, and transfers of resident balances. These involve difficult technical problems on which the Commission feels, as already stated, that only the countries concerned could make decisions and accept responsibility.

The Commission does not favor a "dash" for convertibility, or letting the currency "find its own level" since such a method presents the danger of a vicious circle of inflation, and would require larger reserves than may be available to prevent currency depreciation from getting out of hand. It is, however, sympathetic to the concept of a "floating rate" which provides alternative methods of meeting trade and speculative pressures. Whether a country is strong enough, externally and internally, to administer such a system effectively, involves a judgment which only the country in question could itself responsibly make.

The Commission does, however, wish to emphasize its view that a strong internal economy, willing and able to control its money supply and its budget as safeguards against inflation, sufficiently mobile to make the best use of its resources, and able and willing to save in order to increase its productivity and improve its competitive position in world markets, is a prerequisite to convertibility; and that the attainment over time of these conditions should be the guide as to how rapidly full convertibility could safely be approached.

One further important question is the effect of sterling (and other European currency) convertibility upon the European Payments Union. As the matter now stands after more than a year of study by the EPU Managing Board, the Board has been requested by the OEEC Council to report again in March 1954 on the question of compatibility of currency convertibility (particularly sterling) and the continued functioning of EPU. The Commission's view is that the European Payments Union, by its own testimony, has always been regarded as a temporary mechanism with limited objectives--an intra-European multilateral system of trade and payments (including overseas areas). But the Union has achieved an impressive measure of success--above all, it has shown that freeing trade and freeing payment go hand in hand--and the Commission feels it should not sponsor any measures that might wreck the Union before there is something better to put in its place. This is a problem for the OEEC countries to work out among themselves, provided their solution does not impede the attainment of a global multilateral system of trade and payments.

Last and most important is the question of adequacy of reserves. It must always be borne in mind that sterling is a <u>key</u> currency, i.e., a

currency used to finance the trade of third countries. Even now sterling finances about 40 per cent of the total trade of the world, and if made convertible it would be exposed to trade, financial, and speculative pressures to a far greater extent than any other European currency. This is indeed why, in proper circumstances, we want sterling to become convertible, in the interests of freer trade and payment in a world-wide multilateral system. To the extent that some other of the major trading countries might be able to make their currencies convertible simultaneously with sterling, the pressure upon sterling might be eased. The Commission believes, however, that to restore full confidence in sterling, Britain's reserves must be strengthened.

After serious consideration, and after study of the testimony of highly qualified and closely interested witnesses both here and abroad, the Commission's view is that for the purposes of a gradual and controlled approach to full convertibility (except for special safeguards against capital transfers and the control of previously accumulated balances) adequate reserves could be found through a much more active utilization than heretofore of the International Monetary Fund's holdings of gold and convertible currencies which now amount to $3.3 billion. To this end, the Commission favors also any reasonable relaxations by the Fund that might be required, such as a relaxation of the time schedule for utilization of quotas and the provision for maintaining fixed parities.

As a second means of strengthening foreign reserves and of providing foreign exchange support operations to assist in the gradual attainment of general convertibility, the Commission recommends that the Federal Reserve System explore with foreign central banks the possibilities of standby credits or line of credit arrangements. There is ample precedent for such arrangements in the inter-war period; and the Commission believes that this method is superior to any other which might be devised to provide for additional possible calls on dollars, both because it would avoid an increase in the public debt and because it could be handled more flexibly and informally, and therefore more effectively, than a formal grant of credit by our Treasury.

CONCLUSION

In closing this Report and in submitting the foregoing conclusions and recommendations to the President and the Congress, the Commission wishes to stress the importance of consistency and continuity with respect to our foreign economic policy. Our position of leadership in the world requires that we make clear to other countries the principles upon which our policy is based, and that thereafter we seek to maintain stability in our policy in order that the mutual confidence so urgently required in the field of international trade may be advanced. This stability requires high level coordination of policy within the executive branch of the Government, and consistency of action within the legislative branch.

(Mr. Reed and Mr. Simpson submit a joint statement of general dissent from the Report.)

(Statement by Mr. Millikin on the Report.)

Honorable Clarence B. Randall
Chairman
Commission on Foreign Economic Policy
Washington, D. C.

Dear Mr. Randall:

General

In considering the sizeable volume of material furnished by the Commission's able staff and the text of the Commission's report, it is apparent it would be impossible for any member to agree without exception with all of the reasoning, the choices of words and phrases, the interpretations, shadings of meanings, emphasis and conclusions.

The programs for Congressional and Executive action suggested by the report will be subject to further study and hearings by the appropriate Committees in Congress and those who work in these fields in other departments of the Government.

Additional facts and debate will develop and may change conclusions which now seem to be firmly seated.

The Commission has done an earnest, diligent, hard-working and comprehensive job under the capable leadership of its Chairman, Clarence B. Randall, and should have the Nation's appreciation.

The report with its accompanying staff data will provide an important store of material available for the use of the appropriate Committees of Congress, all others who have official responsibilities in the field of foreign trade and the people.

My Congressional responsibilities require me to say that remarks on some of the separate sections of the report are those which I think should be made at this time and are not intended as an all inclusive or finally binding commentary on the report when it comes before the Congress or other forums of debate.

FOREIGN AID AND TECHNICAL ASSISTANCE

I am in full agreement with the general proposition that economic aid should be terminated.

Generalities on the subject, however, should leave room for permissible exceptions for serving the clearly demonstrable security requirements of the United States.

It seems to me that the distinctions in the report as to when we should grant aid, or, in the alternative, to make loans, are not clear.

Perhaps, such distinctions are not capable of being resolved into immutable working formulae.

The main point to my mind which should not be obscured or bypassed by dogmatic or formulistic approaches is that we must keep ourselves free in all directions, at all times, to do whatever may be necessary in particular cases to promote our domestic and international security.

Point IV assistance has not realized some of its great constructive possibilities. This, because in some instances, the projects depart widely from the intended objectives of the program. In others, there has been bad choice of projects, unacceptable to the native populations because they would impose over-hasty conformity running counter to age-old customs and beliefs. There have been instances of excessive and incompetent staffing and spending.

These programs should be kept simple, realizable within a reasonable period of time. They should be of a nature acceptable to the intended beneficiaries. They should be modest in cost.

When properly pursued there is more to the program than strictly economic aspects. There are broader purposes than to provide a foreign market for American widgets.

There is opportunity for measurable and sensible objectives to help our friends abroad without getting off into misty and extravagant do-goodism on a global scale. There can be mutual exchange of students, and useful knowledge, and of agricultural, industrial and health improving techniques.

As is pointed out in the report the program should not be an excuse for vast capital expenditures under the guise of technical assistance.

In its execution we should provide no excuse for charges of meddlesomeness or imperialism.

UNITED STATES FOREIGN INVESTMENTS:

The report states -

> "In addition to these general activities in the field of diplomatic and foreign policy, there are two specific areas in which the Government can take action to encourage the flow of private investment abroad. It can provide an inducement to foreign investment by removing certain United States tax burdens and inequities. It can mitigate, or remove, certain risks peculiar to foreign investment by providing Government guarantees or insurance not available from commercial sources."

The determination of appropriate tax legislation covering income from foreign investments involves exceedingly complicated, technical and far-reaching questions.

Losses or gains of revenue must always be considered.

We must consider the maintenance of an appropriate relationship between treatment of income which is purely domestic and that which comes from abroad. This, because the repercussions resulting from tax favoritism to the income from foreign investments may seriously change patterns of needed domestic investment.

Also, the ultimate effect on our investments abroad and our international relations of measures carrying the equivalent of subsidies by our Government in aid of foreign investments must be carefully weighed and wise answers found.

The foreign investor, using domestic capital, who competes in his own land with investment from abroad carrying such subsidies, cannot be expected to rest content with his own unfavored position. Nor can it be expected that the foreign government will forever remain unresponsive to the aggregate of such complaints.

The technical questions involving, among other matters, particular sources of income, their nature, the organizational structure in the foreign country which produces the income and the organizational structure which receives it in this country, the differing tax treatments of such income here and abroad, are too numerous and complicated to be spelled out here.

Before passing judgment on any particular tax recommendation of the kinds suggested, I would want the benefit of a much larger supply of information than has been furnished the Commission.

I would want the benefit of the testimony of especially qualified witnesses. I would want to hear from the expert staff of the Joint Committee on Internal Revenue Taxation which serves both the House Ways and Means Committee and the Senate Finance Committee as well as the viewpoints of the Technical Staff of the Treasury Department. Therefore, I reserve opinion on this part of the report.

I am opposed to the extension of Governmental guarantees, or insurance to American investments abroad against expropriation, or inconvertibility of exchange. It is my view that instead of encouraging foreign countries to create a healthy climate for foreign investment, such measures will stimulate an attitude - "We will continue to do as we please; the American investor will be made whole from the results of our actions and the American Government will foot the bill and will have nothing more than an uncollectible political claim against us."

May not the same effects be expected from measures giving our foreign investments or income an assured right to escape into dollar convertibility? In most of the countries of the world, the local

businessman would like nothing better than to have a definite right to change his capital and income into the dollar. But he is compelled by various local exchange controls to hang on to his native currency until, in many cases, it has lost a great amount of its value or may become worthless. Irritations on this point are obvious and the subject deserves additional consideration.

PROBLEMS OF AGRICULTURE AND RAW MATERIALS

As I see it, the report injects itself gratuitously into the highly controversial subject of our domestic programs in aid of agriculture.

Neither the Congress nor the Executive Department in the absence of this section of the report, would be hampered by lack of ample facts or opinions in reviewing the subject during this session of the Congress.

If the point is that we must tear up or radically remake our domestic agricultural programs and shape them to fit the various proposals in this section of the report, including those opposing support price programs, then I cannot go along.

I believe it is not sufficiently emphasized that our domestic agriculture and our Government's domestic policies regarding it should not be subordinated to foreign policy.

As I see it, we must first of all safeguard our agriculture at home and the doing of this requires alert attention to any adverse effects abroad. We should try to avoid such adverse effects by measures always short of jeopardizing a sound agricultural position at home. The decision having been made, our foreign policies should be shaped to accommodate the result.

UNITED STATES DEPENDENCE UPON FOREIGN MATERIALS

In my opinion, the recommendations of this section of the report, without more, if put into effect, would dangerously increase our dependence on foreign sources for needed strategic and critical war materials.

It would seem that the experiences of two World Wars would sufficiently argue the point that our main dependence should rest wherever possible, upon domestically produced materials. The still visible hulks of ships torpedoed while trying to reach our ports with urgently needed materials, should be constant reminders.

The gloom enshrouded predictions as to our becoming desperately dependent upon foreign sources, takes a measure of present fact, much of it avoidable, and puffs it into magnified and unavoidable disaster for the future.

The predictions of such growing dependence result from failure to make proper allowance for the extent of our own resources and ingenuity in providing ourselves with what we need from what we have.

We are familiar with past horrendous predictions that we would all freeze to death because our coal supplies were about to be exhausted; that our oil reserves were about to play out; that direful changes in our economy would be compelled by our lack of domestic natural rubber; that we were in a bad way because we were dependent on important chemical products then produced abroad.

But all of these fears have been banished by new discoveries, development of substitutes and by turning loose American ingenuity and know how.

I do not mean for a moment to say that when we are dealing with wasting resources there may not be some dependence for periods of time upon foreign sources.

But I am urging that no public policy should be adopted out of fear which will encourage the very dependence we should try to escape.

Indeed, and by way of example, strong argument can be made that the importations of copper, lead and zinc and other minerals have been increased under the very import policies based on theories to be found in the report. Such policies have turned active mining camps in the United States formerly contributing importantly to the National defense into ghost towns.

The same results could easily follow as to the raw materials produced on our farms and ranges. In fact, and again by way of example, it is clear beyond doubt that our domestic wool industry is suffering disastrous blows by foreign importations.

I wish to make it plain that in my opinion the development of self-sufficiency, or the nearest practical approach thereto, so far as strategic and critical materials are concerned, is of first importance, and that the recognition of the fact should be ingrained as a matter of steady Government policy and conforming action; that appropriate incentives for encouraging domestic research, exploration and development of such materials should be established by the Government; that tariffs should not automatically and dogmatically be excluded from the methods to be adopted; that to the extent the deficiencies persist for needed materials, importation of them should not be allowed to destroy or endanger domestic efforts to fill our needs.

It seems to me that the emphasis placed in the report upon financing foreign sources obscures the need for domestic investment for the development of domestic sources and for Governmental policies at home which would give opportunity for a profitable return on such investment.

The notion that we can conserve our domestic materials for emergency use while increasing our dependence upon foreign sources is fallacious. Take the case of mineral products: Anyone who knows anything about the mining industry knows that the work of exploration and development can never stand still.

To shut down a producing mine while waiting for some future emergency use of it, overlooks such simple facts as that timbers rot and collapse, that workings fill with water, that skilled labor to restore activity becomes dispersed and may become unavailable after the watchman's lantern is substituted for full scale mining operations.

I suggest the best protection is not a general policy of stockpiling - it has special uses - but is rather in a growing domestic industry which can supply our wartime needs or as much thereof as is possible to minimize foreign dependence or excessive stockpiling.

It should never be forgotten that no one can predict accurately what will happen to foreign sources of needed materials in the event of war. Some of these sources are certain to be bombed out of existence. Others may be found in the hands of enemy nations. Materials reaching the ship or plane may be lost under enemy action while in transit.

TARIFFS AND TRADE POLICIES

I am not prepared at this time to accept the recommendations of the part of the report dealing with the "Buy American Act."

I do not believe that there has been sufficient study of the effect of that Act on our international trade upon which to base final conclusions.

It has not been determined whether unfair import competition would exist if the Act were repealed. No material has come to my attention which would indicate the extent to which similar laws in foreign countries work against our exports.

The unilateral abandonment of the Act might be fatal to later efforts to work out reciprocal arrangements with foreign nations.

The report suggests that the Buy American principle should be amended "to give authority to the President to exempt from the provisions of such legislation, the bidders from other nations that treat our bidders on an equal basis with their own nationals."

I am not so sure that a practical test for appropriate action is provided in this recommendation. The effect of the Buy American Act can be duplicated abroad by nations without any definite statute or regulation. If the foreign nation goes in for State trading, it buys from whom it pleases and for whatever reason it considers sufficient.

Whether or not it is a State trading nation, it can keep out our exports by tariffs, by import licenses, by exchange controls. It may make its foreign purchases under the terms of discriminatory bilateral agreements or by barter transactions.

The administrative difficulties and the effects on our international relations of the burdens which would be imposed on the President are obvious.

Every time an import to us would be considered for admission which normally would be excluded under our Buy American Act, a survey of the whole field of pertinent controlling laws, regulations, and practices of the exporting nation would have to be made which would in turn invite complaints, charges and countercharges with attendant intensification of international bickering and friction. Also, there would be arguments when we are proceeding on a case by case, nation by nation basis as to whether we are affording the unconditional most favored nation treatment in the field of trade to which we are pledged.

The report states that:

> "Pending such amendment, the President by executive order should direct procurement agencies in the public interest to consider foreign bids which satisfy all other considerations on substantially the same price basis as domestic bids."

Aside from the vagueness of the standards to be applied by the "procurement agencies" of the value to be assigned to "all other considerations", this in effect would authorize the President to repeal or amend existing legislation pending possible future action on the subject by Congress.

This part of the report recommends:

> "Congress should empower the President *****(on recommendations of the Tariff Commission) to proclaim such changes in commodity definitions and changes in rates as he determines to be appropriate, provided that such changes do not materially alter the total of duties collected pursuant to any group of rates affected by such simplifying changes when calculated on imports in a specified base period."

I am heartily in favor of making a study of the classifications and of simplifying them in ways more readily understood by our importers and customs officials. But all of this must be under clear standards prescribed by the Congress.

The language of the report is drawn so broadly that rates under the basic Tariff Act of 1930 could be changed without an Act of Congress. This suggests a grant of power never before considered desirable. I am not satisfied that the suggestion of changes in classification be limited so that the total of duties collected in any particular group shall not be less than they are at the present time, is a sound approach.

Perhaps the duties should be more or less than are produced by the aggregate of any group. The test in such cases should be whether those changes would seriously injure or threaten serious injury to our domestic producers of the products in question.

I note also that the limit of change, up or down, provided in the Trade Agreements Act of 1934, as amended, is abandoned and these limits under the powers suggested, could be exceeded. I doubt the wisdom of this.

It should be kept in mind that changing a classification or applying an erroneous classification is the equivalent to a change of rates and therefore, he who has the power to change the classification, by that token, has the power to change the rates.

I agree that there has been terrible confusion in many of our classifications; that importers have been bothered by their inability in many cases to determine in advance the exact classification (rates) of the products they are importing; that our Customs Courts are overburdened by appeals for relief.

It should not be overlooked that many American businesses have made their plans and investments on classifications which have already been made and that inquiries of the type proposed would have a terrifically unsettling effect and decisions following inquiry might have adverse effects. To minimize results of that kind such studies should be made with great care and under clear standards, and with adequate notice and hearings.

I would like to see the industries and items affected before pledging myself to a course of procedural corrections in advance of full knowledge of the problem.

It is proposed that the Senate should promptly consider H.R. 6584, which has to do, among other things, with customs valuations. This bill is now before the Senate Finance Committee. Action on it was delayed during the preceding session of Congress so that a thorough hearing could be held. I do not believe it would be appropriate for me as Chairman of that Committee, to prejudge the testimony or the resulting conclusions.

It is recommended in the report that the President shall have authority to reduce tariffs by not more than 5% of present rates for each of the first three years of the proposed new Trade Agreements Act. We do not have the facts on which to determine whether such delegation of power is desirable. We cannot now estimate the articles to be affected. We cannot now estimate the effect of such action on our exports or imports. We do not know whether any nations desire this particular type of reductions or, if they do, the reasons therefor. We cannot determine whether the 5% per year has a singular validity as distinguished from other possible percentages.

It is recommended in the report that on the basis of information provided by the Tariff Commission, the President shall be authorized to reduce tariffs "by not more than one-half of rates in effect January 1, 1945 on products which are not being imported or which are being imported in negligible volume." -

We do not have full information as to the products which might receive this treatment. We do not know the reasons for applying the treatment. We do not know the effect of the tariffs in mind on the volume of imports or exports. Again no showing is made as to why 50% and not some other per cent will produce whatever results may be contemplated.

We do not have the facts needed to estimate the effect on the volume or specific nature of the imports or exports expected to be realized by taking such action, nor have we any idea of the effect upon the revenues.

As to the recommendation that the President "should be authorized to reduce to 50% ad valorem, or its equivalent, any rate in excess of that ceiling." -

It is not made clear why a 50% rate establishes a valid dividing line between tariffs which should be reduced, maintained or increased. Obviously the proper percentage depends upon the circumstances in each case, as to each item, and the fair amount under applicable standards may be more or less than 50%.

We have a number of rates of duty in excess of 50% which have survived twenty years of trade agreement negotiations. The protective incidence of those rates may, as a matter of fact, be very low as is indicated by evidence that despite the rate, foreign suppliers have captured a substantial part of the American market.

The proposals that action be taken without reciprocal considerations strike at the very heart of what should be a wisely executed reciprocal trade system.

Moreover, it is obvious that the lower we reduce our tariffs without bargaining, the less we have left upon which to base claims for improvement or our own export position or to receive other trade concessions.

ADJUSTMENT TO INCREASED IMPORTS

I am opposed to the proposal made by one of the able members of the Commission that the Federal Government should give assistance in the ways indicated to communities, employers and workers who have been injured by tariff changes.

It strikes me as an infringement on human dignity and our conception of individual freedom to set up in this country a system of central planning which would remove workers out of their home communities, their home jobs, their churches, recreations, and away from lifelong friendships.

Our ability to invest huge amounts in mass production equipment and to substitute machines for human labor put us in position with respect to certain exports to undersell similar goods of other countries. The net result is that when we import a million dollars worth of goods, it is likely that we are importing a much larger portion of labor than is gained when we export a million dollars worth of mass production goods.

Apply this where applicable, to the entire field of our exports and imports, each of over $10 billion annually, and we discover that we are importing millions of hours of labor more than we are exporting.

The destruction of one or two small industries and consequent rehabilitation of a few small communities, according to the expectations of those who propose such relief techniques, might appear inconsequential both as to damage to morale and as to the cost to the Government of relocation and rehabilitation.

But it should be easy to see that to start on that course puts us on a road that has no ending. Our entire body of customs controls could be abolished on the theory that this type of planning and Government intervention would be a suitable substitute for, and would rectify, the disastrous injuries.

Of course, styles change and jobs shift - and without Government intervention; mines become exhausted and new ones must be searched for and opened; consumers shift from their preference for one product to a preference for another, and jobs are lost and new ones created. Production centers of particular industries shift from one area of the country to another, and labor and capital must follow or shift to the making of other articles.

However, there is much difference in the American worker's view toward his own Government and our political system and his conception of individual freedom and dignity according to whether his difficulties are created by the vagaries of demand and supply or whether he is being pushed around by a central government trying to play the Deity with our economic system.

LABOR STANDARDS IN INTERNATIONAL COMPETITION

I am at a complete loss in understanding the statement in the report that -

> "The clearest case of unfair competition is one in which the workers on a particular commodity are paid wages well below accepted standards in the exporting countries."
> (Underscoring provided.)

It seems to me that when we are charged with recommending actions which in all events must safeguard the American economy, it is completely off point so far as imports are concerned, in determining whether those imports represent fair competition with our domestic producers, to accept as recommended, the wage standards of the exporting countries if they are not there substandard.

The point is to safeguard our own wage scales and our own standards of living by requiring fair competition between the competing articles where they compete, to-wit, in this country, and where, therefore, the quality of the competition must be judged.

We know of nations with a commonly accepted level of wages going into the cost of products which would compete with our own, which are but a small fraction of the wages paid in this country for the same type of labor. If we are out to safeguard our own wage scales and standards of living by requiring fair competition, how can it possibly be argued, wherever the wage cost is important, that this can be done without measures of any kind to equalize the wage differentials?

RELATED PROBLEMS OF TRADE ADJUSTMENT

I am not prepared to join with the thought in the report that the United States acquiesce in more trade in peaceful goods between Western Europe and the Soviet bloc.

The recommendation is qualified by the condition that it should be done without jeopardizing military security, and then as above indicated, the goods in trade must be "peaceful goods."

It largely comes down to questions of definition and these have not been clarified by the recommendation. It may well be that in Russia or in satellite countries where the people show growing discontent over the lack of consumer goods, which ordinarily are construed as "peaceful" and as not "jeopardizing military security", the supply of such goods from the outside may serve to quench very potent causes of possible domestic difficulties in the Communist countries.

I cannot go along with the recommendation until I am more fully satisfied that in making such exchanges we are not strengthening potential aggressors against internal unrest.

With respect to this part of the report dealing with Merchant Marine policies, I am inclined in the main to associate myself with the comments of Mr. McDonald.

Respectfully submitted,

Eugene D. Millikin

(Joint statement of general dissent to
the Report by Mr. Reed and Mr. Simpson.)

January 18, 1954.

Honorable Clarence B. Randall
Chairman, Commission on Foreign Economic Policy
Washington, D. C.

Dear Mr. Randall:

In accord with the Commission decision that minority statements be incorporated as part of the official commission report, we transmit herewith our joint statement of general dissent to the Report of the Commission on Foreign Economic Policy.

Our more detailed statement will be submitted to you in the near future. You appreciate that our inability to file our complete statement at this time is due to the time limitation imposed.

We understand that, as members of the Commission, our later statement will be printed and given the same distribution and publicity as given the majority report.

With kindest personal regards,

Sincerely yours,

Daniel A. Reed

Richard M. Simpson

(Dissent of Mr. Reed and Mr. Simpson
to the Report of the Commission
on Foreign Economic Policy.)

Supplementing our general dissents recorded in the individual sections of this Report, we feel, after serious consideration, that we have no alternative but to file a vigorous, more detailed statement.

We do this with great reluctance because the mandate to this Commission from Congress is of utmost importance to the people of this country, regardless of the locality in which they live, the work which they do, or their immediate economic interests.

We feel that the Report, as a whole, contributes little to a solution of the over-all problems which this country faces with respect to its foreign economic policy. It adds nothing to the views of the members of the Commission previously published and well known before their selection.

The mandate of the Congress called for the submission of the Report by March 6. This was admittedly a short time within which to consider the problems involved. Yet the Report is now submitted six weeks before the dead-line fixed by Congress with the complaint that adequate time was not permitted. However, of the seven months available, less than four months had been fully used, when the Report was frozen and submitted to the members of the Commission with only one week allowed for development of their dissents. No comprehensive study of facts, conditions, and problems was made. The only witnesses allowed to appear at public hearings held by the Commission in the United States were representatives mainly of recognized pressure groups whose views were known in advance. Witnesses in the United States were allowed two days for appearance; those appearing at private hearings in Europe, whose primary interest was to obtain help for foreign countries, were allowed four days. Several days of executive hearings were also held at the Commission. There is no evidence in the Report of serious consideration of the exhaustive studies prepared and submitted by many affected domestic industries. Spokesmen for industries vitally affected were not permitted to testify.

The Report covers less than 50% of the assignment from Congress. Outside of protestations of mild concern for workers and farmers who might suffer, no recommendation is made in the Report for their relief from the impacts of the recommendations, if adopted. The Report fails to recognize that the welfare of the free world is dependent upon a healthy economy and a strong defense structure in this country.

The various protests submitted to the Commission by industry as to the effects of so-called "trade liberalization" upon the economy and the defense base of this country have largely been ignored. To give specific examples, and without purporting to pass upon the merits of their positions, such basic industries as the chemical, textile, electrical, coal, and petroleum, and others have submitted exhaustive studies made by organizations and individuals of integrity and repute. They assert that the economy of this country and its ability to protect itself and the free world in the event of emergency may, and in the light of history probably will, be dangerously affected, if these basic industries are not maintained in a healthy condition against foreign competition employing labor at wage rates 1/10th to 1/3rd of rates paid in this

country. In face of the well-documented presentation of these industries, and without careful study and review of their positions, it is not enough that this Commission offer sympathy in place of jobs.

While the Commission by a 16 to 1 vote rejected a proposal of one member that the United States undertake to subsidize all industries, their workers, and the communities in which they operate to compensate them for injuries resulting from substantial reductions in tariff rates, the mere insertion of the proposal in the Report indicates a dangerous sentiment in its favor. Should such a proposal be enacted into law, it could, in effect, convert the present slogan of "trade, not aid" for the Western world into "aid, not trade" for our own industries and workers. Subsidies are no substitutes for jobs. Nor are they needed for our industries which under tariffs levied to prevent unfair competition have given the United States the best balanced and most productive society in all history.

No reference is made to the potential impact of the Commission's recommendations upon the tax income of this country, be it for the Federal Government, for state governments or for local governments. Obviously, people thrown out of work and silent factories will not pay taxes. Yet, in the highly prosperous year of 1952, about 26% of the total national income went to support our Governments. We are now greatly concerned with tax reductions and where the money is coming from to pay the high costs of Government. Obviously, it will not come from goods manufactured overseas.

Finally, in spite of statements to the contrary, the Report really draws its basic concepts from economic conditions which have now ceased to exist in the nations of the free world. In spite of the pessimistic view of world conditions presented in the Report, recent official statements by the Foreign Operations Administrator declare, without qualification, that the nations of the free world in 1953 enjoyed the best economic year in their entire history. They affirm that all foreign economic aid, with minor exceptions, may now be eliminated. They hold that the free world outside of the United States is moving forward. It has enjoyed its highest personal income; it has been better fed and better clothed than ever before; it has had its lowest unemployment and its greatest profits; and finally, it has achieved control of inflation. In spite of all this, the Report advocates sacrifices by the United States - sacrifices which admittedly will create unemployment and adversely affect businesses in this country. Yet the only remedy offered is the alternative of subsidy or sympathy.

The Report recommends aid to these improved and improving foreign nations through reductions in our tariffs - at the expense of American industries, American workers, and American agriculture. It contemplates only the opening up of American markets to give larger shares to producers in foreign countries with resulting smaller shares to our own producers. There are no constructive recommendations for actions which will expand world trade to the benefit of all countries.

Obviously, we, as individual members of the Commission, do not have the staff, the funds, or the time, within the narrow limits which have been imposed, to propose a detailed alternative to what we consider a vague, indefinite and unsatisfactory Report.

However, before the time provided by Congress has expired - namely, March 6, 1954, we expect to submit to the Commission alternative recommendations, and a statement of principles upon which they are based. We hope these principles and recommendations will provide a basis for formulating and coordinating policies in respect to our domestic and international commerce for the benefit not only of this country, but of the entire free world.

Daniel A. Reed

Richard M. Simpson

(End of joint dissent)

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AN ACT 1/

To extend the authority of the President to enter into trade agreements under section 350 of the Tariff Act of 1930, as amended, and for other purposes.

(This Act may be cited as the Trade Agreements Extension Act of 1953)

TITLE I--FOREIGN-TRADE AGREEMENTS

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TITLE II--UNITED STATES TARIFF COMMISSION

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TITLE III--ESTABLISHMENT OF COMMISSION ON FOREIGN ECONOMIC POLICY

Sec. 301. Establishment of the Commission.

There is hereby established a bipartisan commission to be known as the Commission on Foreign Economic Policy (in this title referred to as the "Commission").

Sec. 302. Membership of the Commission.

(a) Number and Appointment.--The Commission shall be composed of seventeen members as follows:

(1) Seven appointed by the President of the United States;

(2) Five appointed from the Senate by the Vice President of the United States; and

(3) Five appointed from the House of Representatives by the Speaker of the House of Representatives.

(b) Political Affiliation.--Of the first class of members specified in subsection (a), no more than four members shall be from the same political party. Of the second and third classes of members specified in subsection (a), no more than three members from each class shall be from the same political party.

Sec. 303. Organization of the Commission.

The President shall designate the member of the Commission who shall be the Chairman, and the member who shall be the Vice Chairman.

1/ Public Law 215, 83rd Congress, 1st Session, approved August 7, 1953, 67 Stat. 472.

Sec. 304. Quorum.

Nine members of the Commission (including at least five who are Members of Congress)shall constitute a quorum.

Sec. 305. Compensation of Members of the Commission.

(a) Members of Congress.--Members of Congress who are members of the Commission shall serve without compensation in addition to that received for their services as Members of Congress; but they shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of the duties vested in the Commission.

(b) Members from the Executive Branch.--The members of the Commission who are in the executive branch of the Government shall each receive the compensation which he would receive if he were not a member of the Commission, but they shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of the duties vested in the Commission.

(c) Members from Private Life.--The members from private life shall receive not to exceed $75 per diem when engaged in the performance of duties vested in the Commission, plus reimbursement for travel, subsistence, and other necessary expenses incurred by them in the performance of such duties.

Sec. 306. Staff of the Commission.

(a) Appointment of Personnel.--The Commission may appoint such personnel as it deems advisable, without regard to the civil service laws, and shall fix the compensation of such personnel in accordance with the Classification Act of 1949, as amended. The Commission may procure temporary and intermittent services in accordance with section 15 of the Act of August 2, 1946 (5 U.S.C., sec. 55a), but at rates not to exceed $75 per diem for individuals. The Commission may reimburse employees, experts, and consultants for travel, subsistence, and other necessary expenses incurred by them in the performance of their official duties and make reasonable advances to such persons for such purposes.

(b) Certain Laws Not to Apply.--Except for members of the Commission appointed by the Vice President or the Speaker of the House, and except for any member of the Commission who may be appointed by the President from the executive branch of the Government, service of an individual as a member of the Commission, employment of an individual pursuant to the first sentence of subsection (a), and service by a person pursuant to the second sentence of subsection (a), shall not be considered as service or employment bringing such person within the provisions of section 281, 283, or 284, or 1914 of title 18 of the United States Code, or section 412 of the Mutual Defense Assistance Act of 1949, as amended (22 U.S.C., sec. 1584), or section 190 of the Revised Statutes (5 U.S.C., sec. 99).

Sec. 307. Expenses of the Commission.

There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, so much as may be necessary to carry out the provisions of this title.

Sec. 308. Report--Expiration of the Commission.

(a) Report.--Within sixty days after the second regular session of the Eighty-third Congress is convened, the Commission shall make a report of its findings and recommendations to the President and to the Congress.

(b) Expiration of the Commission.--Ninety days after the submission to the Congress of the report provided for in subsection (a) of this section, the Commission shall cease to exist.

Sec. 309. Duties of the Commission.

(a) In General.--The Commission is directed to examine, study, and report on the subjects of international trade and its enlargement consistent with a sound domestic economy, our foreign economic policy, and the trade aspects of our national security and total foreign policy; and to recommend appropriate policies, measures, and practices.

(b) Certain of the Matters to be Considered and Reported On.--Without limiting the general scope of the direction to the Commission contained in subsection (a), the Commission shall consider, and shall report on, the following matters:

(1) (A) Applicable provisions of the Constitution of the United States;

(B) Laws, regulations, and practices of the United States relating to international trade, including such matters as tariffs, customs, customs administration, trade agreements, peril point and escape procedures, opinions and decisions thereon of the United States Tariff Commission and the President, import and export quotas, monetary licenses, countervailing duties, and procurement preferences;

(C) Departments, agencies, boards, commissions, bureaus, and other instrumentalities of the United States having jurisdiction over, or dealing with, these matters;

(D) Laws, regulations, and practices and official instrumentalities of other nations concerned with similar subject matters;

(E) Pertinent statistics on international trade; and

(F) Balance of payments, nation by nation; and the causes and effects of, and proposed remedies for, excessive imbalances.

(2) Relationship of our foreign economic policies to, and their influences on, our total foreign policy; and the proper relationship of each to the other.

(3) Effect of our foreign aid and military defense programs on international trade and international balance of payments.

(4) Foreign markets of trading nations--extent and nature; and the effect thereon of wars, other emergencies, technological advances, international relations, and other pertinent factors.

(5) International instrumentalities, organizations, and agreements and practices affecting trade, such as the General Agreement on Tariffs and Trade, Customs Unions, Organization for European Economic Cooperation, International Wheat Agreement, cartels, European Payments Union, European Coal and Steel Community, and International Monetary Fund.

(6) Foreign investment capital and the flow of investment capital between nations--need thereof--restrictions thereon--inducements necessary to encourage--role of the Export-Import Bank and of the International Bank for Reconstruction and Development.

(7) Effects on international trade of factors such as costs of production and pricing, labor practices and standards, general living standards, currency manipulation, inconvertible currencies, official inflationary policies, currency devaluations, exchange controls and licenses, quotas, embargoes, dumping and pricing practices, multiple currencies, bilateral trade agreements, barter arrangements, customs procedures, marking and transit problems, concealed regulation of exports and imports, preferential tariff systems, most-favored nation treatment, government monopolies, state-controlled economies, state trading, and state-subsidized trading.

(8) Effect of existing and proposed trade policies on the promotion of peace and security and the betterment of political, social, and economic life, domestic and foreign.

Sec. 310. Powers of the Commission.

(a) Hearings and Sessions.--The Commission or, on the authorization of the Commission, any subcommittee or member thereof, shall have power to hold hearings and to sit and act at such times and places, within the United States or elsewhere, to take such testimony, and to make such lawful expenditures, as the Commission or such subcommittee or member may deem advisable.

(b) Obtaining Official Data.--The Commission is authorized to request from any department, agency, or independent instrumentality of the Government any information it deems necessary to carry out its functions under this title; and each such department, agency, and instrumentality is authorized to furnish such information to the Commission, upon request made by the Chairman or by the Vice Chairman when acting as Chairman.

Approved August 7, 1953.